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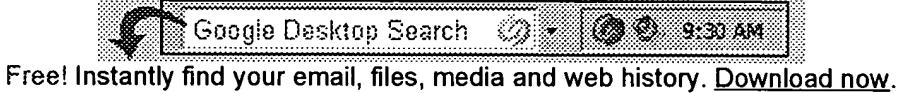
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### Book Review

## Efficient Asset Management:

# A Practical Guide to Stock Portfolio Optimization and Asset Allocation

By Susan M. Mangiero, Ph.D., CFA

Optimization has long been an important element of portfolio theory. In practice, the technique is not often used. Small changes in inputs lead to large changes in output, notably the weights that optimize an investment objective. Moreover, optimization depends on estimated values that are vulnerable to error. Resistance to change is high. Expensive software developed around the traditional notion of optimization would have to be replaced. Critics of the mean-variance paradigm would have to step forward and be counted.

Notwithstanding practical realities, optimization has the potential to make investing easier. In his new book, Dr. Richard O. Michaud shows how, emphasizing that optimization is a statistical process and not an exact science. One method involves the creation of a "resampled" efficient frontier that relies on the mean, standard errors and t-statistics of the average portfolio weights of simulated efficient portfolios. Resampling confronts the overfitting of data that plagues mean-variance optimization and is shown empirically to better reflect investment performance more often than the traditional approach.

Additional insights focus on ways to improve input estimations. This is especially meaningful given the stated acute sensitivity of optimization outputs to model inputs. Four types of "Stein" estimators are discussed, citing the simultaneous computation of means and covariances as an advantage over the more common method of estimating inputs for each asset alone. Other chapters are dedicated to a discussion of tying optimization to a selected benchmark and enhancing data forecasts, respectively.

Two nice features include a review of portfolio theory at the outset, followed by myriad examples that illustrate the limits of the typical mean-variance procedure. What's also nice is the author's conclusion that no perfect solution exists. A better mousetrap is still not infallible. Valid optimization, an important item in the money manager's toolbox, is susceptible to incomplete information. Failing to recognize an institution's asset selection constraints or security liquidity differences are two instances.

Richard O. Michaud, Efficient Asset Management: A Practical Guide to Stock Portfolio Optimization and

*Susan Mangiero is an Assistant Professor of Finance at Sacred Heart University. She received her Ph.D. in finance from the University of Connecticut.*

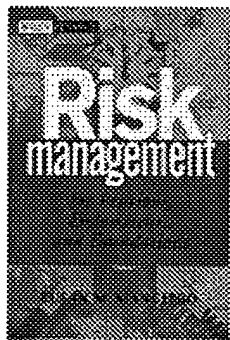
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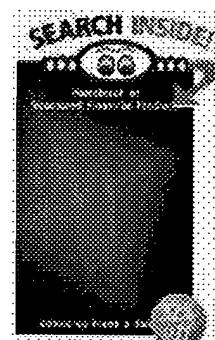
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## Asset Allocation, Portfolio Optimization: Better Risk-Adjusted Performance?

by Gerald Butrimovitz, Ph.D., CFP®

Would the results of a "mutual fund dart-throwing" contest provide evidence that the professional asset allocation specialist results in higher returns, on average, than the individual who throws a dart into the "sea" of mutual funds? The historic quarterly results of the Wall Street Journal "stock dart-throwing" contest provide some data that "professionals," on average, can select better-performing stocks than does random selection. The Wall Street Journal contest, however, does not emulate a true reflection of the investment experience of the individual, as the contest is limited to a brief three-month period and involves the selection of a single stock. We feel that active buying and selling is a natural process in mutual funds, in contrast to advertisers and columnists who recommend buying and holding for the long term. For a truer life reflection of the investor in managed funds, we decided to explore whether asset allocation performance exceeds the performance of "throwing darts" (that is, random selection) into the pool of managed funds.

The Brinson, et al.<sup>1</sup> study suggests that over 90 percent of variation in performance from quarter to quarter comes from asset allocation decisions between stocks, bonds and cash. We wish to extend these studies by exploring performance results from year-to-year reallocation of asset allocation funds using techniques of optimization developed by Ibbotson Associates. We searched for historic representation of this modeling and learned that Pacific Life, using the consulting services of Ibbotson Associates, applied systematic modeling to actively managed funds.<sup>2</sup> In this paper, we explore the outcome of the risk-adjusted performance of five Ibbotson models that were developed and applied to independently managed variable annuity funds, versus throwing a dart at a variable annuity and a mutual fund database.

Asset allocation is a commonly accepted technique for investment of funds. Professional acceptance of asset allocation stems from the Brinson study that has suggested that 93.6 percent of variation in total return from fund management comes from asset allocation policy.<sup>3</sup> This has been challenged by Jahnke, who attributes only 14.6 percent of portfolio performance to asset allocation.<sup>4,5</sup> A recent paper suggested that sector selection, style timing and aggressiveness may contribute more to performance than general asset allocation policy.<sup>6</sup> Roger Ibbotson in a recent paper analyzed ten years of performance data on 94 balanced mutual funds ending March 1998. He found that only 40 percent of the variation of returns across funds came



from the investment allocation policy, whereas "60 percent is explained by other factors such as asset class timing, style within asset class, security selection and fees."<sup>7</sup> While it is not the goal of this paper to resolve this debate, we wish to shed light on whether portfolio optimization using risk-managed asset allocation models produces better risk-adjusted investment returns than through randomly selecting an individual fund.

## **Methodology**

The methodology for this study compares the results of three years of data from five proprietary portfolio optimization models developed by Ibbotson Associates and applied by Ibbotson Associates to institutionally managed funds in Pacific Life's Select Variable Annuity product. We chose the time period October 1, 1995, through September 30, 1998, to include the effects of a rising stock and bond market as well as sharply declining markets in 1997 and 1998. We specifically used the end date of September 30, 1998, as the markets were in a major decline phase and this would be a means to stress-test the value of diversification and optimization at a time when it should theoretically work the best—that is, at a time when investors would be most likely to lose confidence in their investments. We hypothesized that if the methodology held up during this period, we would have a basis for continuing our "lecture" to clients that diversification pays. If, on the other hand, the methodology proved to provide a lower-than-expected excess value, we would be inclined to reexamine our view of pundits who recommend concentration versus diversification and use of large growth stocks or IPOs over a blend of value and growth in large, medium and small stocks. We have used the September 30, 1998, Principia Pro Plus (Morningstar) databases for variable annuities and for mutual funds as a comparative search tool.

In developing this paper, we used the collective insight of members of The Nazrudin Group, The Advisor's Network, discussion with Ibbotson Associates technical staff and the statistical information made available by Pacific Life.

## **Database Criteria for the Ibbotson Model**

The five risk-adjusted models developed by Ibbotson Associates were based on input of historic data indices, their standard deviations and risk premium above the Treasury bill. Ibbotson Associates created five generic Optimized Model Portfolios (A, B, C, D, E) to meet certain levels of risk (standard deviation) through asset allocation across a broad number of investment styles (Appendix 1).

Ibbotson Associates applied these style requirements through attribution analysis to 13 actively managed funds of Pacific (see Appendix 2). Each portfolio was optimized to minimize risk through broad asset allocation across various classes of style (value versus growth), size (large capitalization, medium or small) and across classes of bond quality and duration. The specific fund percentages were generated to meet the requirements of the style analyses associated with the Ibbotson optimized models. The five portfolios ranged in increasing

reward/risk from 77 percent bond and 23 percent stock for Portfolio A to 100 percent stock for Portfolio E, in increasing increments of stock investment. Ibbotson Associates annually created optimized models, analyzed the Pacific managed funds and set new percentages in order to "fit" the funds to the new risk-measured criteria (standard deviation).

## Study Criteria

The question of "Does asset allocation and portfolio optimization produce better risk-adjusted performance?" was tested by comparing the three-year standard deviation and percent of annualized returns of the five optimized asset allocation model profiles (A-E) with all other variable annuity funds managed during the same time period. We have used the 9/30/98 Principia Pro Plus (Morningstar) "for Variable Annuities/Life" and for "Mutual Funds" databases as comparative search tools.

We searched among the 8,055 variable funds according to these criteria: For a three-year standard deviation of 'x' or less, how many variable annuity funds produced a three-year return equal or greater than 'y' ('x' was the standard deviation of these optimized portfolios and 'y' was the three-year annual return of the optimized portfolios). Of 8,055 funds in the current Morningstar database, 5,631 variable funds (70 percent) had three years of data history. Of these 5,631 funds, only 3,659 were identified as variable annuity funds.

## Results

The results of the search for the variable annuity funds whose performance equaled or exceeded that of the model portfolios are exhibited in Table 1.

Only 18 out of 3,659 variable annuity funds, or 0.49 percent, equaled or exceeded Optimized Portfolio A with a standard deviation of 5.6 percent or lower. For Optimized Portfolio B, 17 funds, or 0.46 percent, equaled or bettered the portfolio; Portfolio C, 137 funds, or 3.74 percent; Portfolio D, 243 funds, or 6.40 percent; and Model E, 554 funds, or 15.14 percent, equaled or exceeded its performance. As the performance of individual funds that exceeded the optimized portfolios ranged from 0.49 percent of funds (Portfolio A) to 15.14 percent (Portfolio E), the results suggest that the Optimized Portfolios (A-E) exceeded the performance of between 99 percent (Portfolio A) and 85 percent (Portfolio E) of all individual variable annuity funds on a risk-adjusted basis over the three-year study period.

These results are striking as they demonstrate that it was statistically improbable (less than a five percent chance) that an investor could have "thrown a dart" in selecting an individual variable annuity fund and received a better return on a risk-managed basis than the Optimized Portfolios A, B or C. For Optimized Portfolios D and E, the data widens to 6.40 percent and 15.14 percent. The high percentage of international and emerging market stock investments in Portfolios D and E lowered their three-year returns due to the 1997 and 1998 market declines. These optimized portfolios, however, still strongly

suggest that they outperformed random selection.

## Risk-Management Results of the Optimized Portfolios

Over two prior test periods, once during the Asian decline in 1997 and again during the market decline of 1998, these five optimized portfolios provided safety through lower risk than the Dow Jones Industrials (Table 2).

All portfolios, including Portfolio E, which contains 100 percent stocks, had a lower risk than the Dow Jones Industrials. Most other stock indexes would be considered "riskier" than the Dow.

The three-year performance data for the optimized portfolios A-E are higher than the projected returns established by Ibbotson Associates as shown in Appendix 1. The three-year standard deviation data are shown as well and display a lower standard deviation (risk) than that of the projected Ibbotson Associates data. These portfolios outperformed the theoretical constraints of the Ibbotson long-term data series (Ibbotson uses a database for fixed income since 1970 and for equities since 1926), though these results may be skewed by above-average market returns for this time period.

## Variable Annuity Portfolios Versus the Morningstar Mutual Fund Database

We repeated this testing of the optimized variable annuity portfolios versus all mutual funds with a three-year or greater data history. The number of funds with a three-year or greater history was 6,757 out of a universe of 10,296.

The optimized variable annuity portfolios (A-E) exceeded the performance of between 99 percent (Portfolio B) and 88 percent (Portfolio E) of all individual mutual funds on a risk-adjusted basis by for the three-year period. These results suggest that on a risk-managed basis, the variable annuity optimized portfolios produced a higher return than 88 percent of the universe of 6,757 mutual funds.

We found that on a risk-adjusted basis, the percentage of mutual funds (Table 3) was lower than the percentage of variable annuities (Table 1) whose performance equaled or exceeded the Optimized Portfolios A and B. We would have expected the opposite finding, particularly as bond returns (Portfolios A and B) would have been more sensitive to the slightly higher expense ratio of the variable annuity. This would suggest that asset allocation, optimization and superior managers are more important to the contribution of return than expenses in this study.

We also analyzed each individual portfolio (A, B, C, D and E) based on those funds that were within their stated individual standard deviation limits. We did not find a dramatic shift in results from that of Table 1 and Table 3. However, because the Morningstar base populations versus each optimized portfolio were smaller, the relative percentages of "outperforming funds"

grew. The consistency of the increases between Tables 1 and 3 and Appendices 3 and 4 suggest that even if the question was asked differently (that is, not in context of "dart throwing"), the conclusions would be the same.<sup>8</sup>

The results in both Table 1 and Table 3 support the proposition that asset allocation, optimization and excellent managers are key components of risk-adjusted performance.

## **Variable Annuity Model C Versus Asset Allocation Mutual Funds**

Mutual fund "asset allocation funds"<sup>9</sup> exist under the premise that a single fund provides diversification. We therefore tested how many of the asset allocation mutual funds exhibited superior risk-adjusted returns over Optimized Portfolio C (Optimized Portfolio C contains about 60 percent in U.S. and international stocks and 40 percent in bonds, representative of a typical asset allocation mutual fund).

Out of 165 asset allocation funds with three years of data history, only 34 (21 percent) exhibited superior performance (see Table 4). Of all asset allocation mutual funds, 79 percent underperformed the Optimized Portfolio C.

This suggests that four out of five asset allocation mutual funds might not be managed using a combination of portfolio optimization and multiple managers, but rather act as a "fund of funds" under a related team of analysts or managers. It is reasonable to assume that most mutual fund companies' managers share from the same pool of research analysis and might be inclined to have correlated and overlapping portfolios, thus resulting in only partially diversified asset allocation funds.<sup>10</sup> This aspect of the study, whose results are consistent with the variable annuity and mutual fund data (Tables 1 and 3), suggests that asset allocation by itself does not produce higher risk-adjusted performance than a portfolio that uses asset allocation, multiple managers and is optimized across style classes.

Thus, 21 percent of improvement in return<sup>11</sup> may be related to asset allocation. This might be interpreted to say that asset allocation contributes but 21 percent to overall performance in a portfolio. This improvement is significant but not as much as one would expect over random "dart-throwing into a single fund" (Table 512). Asset allocation appears to not be at the top of the hierarchy of the investment decisions that produce higher performance.

These findings are similar to the 14.6 percent finding by Jahnke and the 16.5 percent finding of Arnott (footnote 4). This study (footnote 6) might further suggest that 79 percent of improvement in return is related to other characteristic factors such as portfolio optimization, multiple managers and diversity across a broad number of investment styles.<sup>13</sup> It is likely that additional other fundamental factors accounted for these differences, although we did not see much difference in test group factors such as percentage weightings in stocks versus

bonds and U.S. versus international allocations.

It is interesting that only one in five asset allocation funds equaled that of Optimized Portfolio C, a similar numeric statistic above. Extrapolating this data, one might say that there is only a one-in-five chance that asset allocation alone will produce superior performance. Arnott found that beyond "general asset allocation policy," style timing contributes 27 percent to return, selection contributes 38 percent and aggressiveness contributes 28 percent. These factors are consistent with the modern portfolio theory hypothesis to use distinct investment styles as well as our hypothesis that superior managers excel primarily in stock selection and aggressiveness.

We considered the possibility that the high number (80 percent) was due to chance of random selection. We performed Poisson statistics on these data to assure that there was no statistical overlap between these two test population groups. We found it was statistically highly improbable that these results were from random selection or from noise. The statistical analysis showed that the difference was greater than three standard deviations (< 0.001 percent). It is a crucial finding that asset allocation alone, as undertaken by mutual fund complexes, produces lower performance than asset allocation plus portfolio optimization across broad asset classes by managers who are segregated from each other's research and stock selection committees.

## **Five-Year Database Analysis**

Individual fund manager's performance typically does not persist over long periods of time. Although we do not have comparative five-year data for VA Model Portfolios A-E Optimization at this time, we have begun preliminary investigations. I searched the variable annuity database over the preceding five-year period for risk-adjusted performance that exceeded that of the three-year Ibbotson optimization. I found that the number of funds that exceeded the returns of the optimized portfolio was yet lower than the three-year study. This is not surprising as (1) the number of possible funds for the five-year universe reduced to 2,426 (that is, proportionate reduction) and (2) over the longer period of time, managers' performances may have declined. We therefore suggest that use of multiple fund managers within specific asset class styles and optimization of the portfolio annually provide a higher probability of improving portfolio returns over time. Thus, it would be reasonable to suggest that the mutual funds that exceeded the optimized portfolios over the short three-year trial period may not continue to outperform in the future.

We also analyzed 4,007 mutual funds that existed with a five-year or greater history. We found that over a five-year period, the number of funds that equaled or exceeded the risk-adjusted optimized portfolios (Table 1) decreased: only 15 mutual funds (0.37 percent) exceeded the Optimized Portfolio A, only 12 mutual funds (0.30 percent) exceeded Portfolio B, 99 mutual funds (2.47 percent) exceeded Portfolio C, 151 mutual funds (3.7 percent) exceeded Portfolio D and 792 mutual funds (19.7 percent) exceeded the optimization results of Portfolio E.

The decrease in the number of mutual funds whose risk-adjusted return were higher than that of the optimized portfolios for the five-year period versus the three-year period (Table 3) is obvious. For mutual funds in Category A that exceeded performance of the three-year VA results, the percentage dropped from 2.56 percent (three-year period) to 0.37 percent (five-year period). For Portfolios A, B and C (that hold 73 percent, 60 percent and 40 percent bonds respectively), this decrease may be due in part to the lower returns in bonds over the past five years versus the past three years where interest rates declined more rapidly.

The near equal performance of Portfolio E (which holds 28 percent international and 6 percent emerging markets stocks) in the five-year mutual fund period compared with the VA three-year optimization period reflects the fact that both international and emerging market funds had a higher return over the past five years than over the most recent three-year period. Unfortunately, the number of emerging market mutual funds that had five-year performance data were limited to 14 funds. We do not have comparative five-year data for Model Portfolios A-E Optimization. However, the data above intuitively suggests that the number of mutual funds that would have exceeded an optimized portfolio would have declined as performance of individual mutual fund managers tends to "regress to the mean."

## Expense Ratios

Lay newspaper articles typically characterize the disadvantages of variable annuities over mutual funds due to their modestly higher expense ratio. Do expense ratios count? This study suggests that it is the combination of portfolio optimization, diversification and perhaps above-average variable annuity fund performance that accounts primarily for better risk-adjusted returns. While costs should always be considered, they do not appear to play a key role in this study.

To elicit differences within the focused population of the asset allocation funds that exceeded the risk-adjusted performance of Portfolio C, we attempted to break out the pattern that resulted in higher return. We found, in general, that a higher return was related to a higher stock concentration and a higher expense ratio. We separated the 34 asset allocation mutual funds that outperformed the Optimized Portfolio C into two groups: (1) higher than the mean expense ratio of the group and (2) lower than the mean of the group (Table 4). The lower expense group demonstrated a small positive differential (<0.5% in annual returns over three years). For this limited study, the differential contribution to performance of lower versus higher expense asset allocation funds was in the magnitude of 4.3 percent, much lower than would be expected (that is, 0.5%/11.58 %, Table 4). However, as several of these asset allocation mutual funds were listed in the Principia database as having no expenses whatsoever (0 percent expense ratio, front, back load and 12 b-1 cost) and might be in error, these data may overstate this performance differential. While most studies conclude that low expense ratios are critical to performance, we did not find this to be the case once the subgroup of higher performing funds was broken out. We do agree that at extremes of performance, expenses do

count. An in-depth study would be useful to elicit the actual contributions of fund expenses to optimized risk-adjusted performance.

It is noteworthy that this study did not account for taxes that otherwise would have been paid by mutual fund owners, lowering net performance, and might have further skewed the data in favor of the tax-deferred annuity portfolio. The cost savings and higher long-term income payout from variable annuities over mutual funds has been previously demonstrated,<sup>14</sup> but may not be material to this shorter study outcome. We intend to investigate these cross effects over longer-term periods.

### **Rolling Three-Year Performance Data**

The Ibbotson methodology used in this study applied a long-term data series to this three-year study period. However, as we experienced two major market declines and recoveries during this period, these reported results may be typical for this current period of increasing market volatility.

It should be noted that the seemingly low returns for the optimized Portfolio E as of 9/30/98 are mostly related to its high concentration of emerging market and international funds, which declined twice during this study period. The performance data for the December rolling three-year period (Table 6) reflects the normalization of the data by including the recovery period that followed the summer 1998 decline. The three-year data ending December 30, 1998, are more typical of the history of these optimized portfolios.

### **Discussion**

We chose the time period ending 9/30/98 to "stress test" the Ibbotson Asset Allocation model, as this was one of the most troubling times for advisors. One, we were in the midst of a severe market decline and two, the "markets" rewarded those who concentrated in large capitalization growth stocks and punished those who concentrated in small-value stocks. If a systematic asset allocation model adds value, it would be most pronounced during market declines, where the non-correlation components of the model reduced volatility and therefore loss of the portfolio.

Advisors may have recently been asked by clients, "Why am I not singularly invested only in the S&P 500?" We feel that once the true financial personality of the client is established and understood by the client, they are more likely to understand that the market extremes for 1998 speak to extremes of risk, not return. For example, for 1998, the largest 50 stocks of the S&P 500 produced a 41.3 percent return versus the remaining 450 stocks, which produced a 16.5 percent return—the largest differential we have seen over the past five years. Growth vastly exceeded value for 1998 as the Russell 1000 Growth Index (the largest 1000 stocks) returned 38.7 percent; the Russell 1000 Value Index returned but 15.6 percent. The remaining Russell 2000 stocks out of these top 3,000 stocks returned a -2.5 percent return for 1998.

Our investment methodologies over the past 15 years reflect a balance of application of technical analysis, fundamental analysis and tactical asset allocation. We concluded several years ago that clients in general do not easily accept portfolio management methods that (1) frequently change their portfolio allocation, (2) are irrelevant to their values, such as long term goals and (3) are difficult for them to understand. We have concluded that clients want (1) actively managed funds, (2) some degree of active reallocation and (3) need a "visual anchor" such as a graphical representation of the 40-month business cycle to understand that their asset allocation is matched to the current economic conditions.

We have concentrated on extensive interviewing and financial/psychological testing to identify our clients' risk tolerance, which is translated into variance limitations—that is, portfolio standard deviation. We retest clients to ensure that we have a stable picture of their capacity to accept the modulation of declines and limitations of upside potential. We find that by focusing on target long-term returns, the 9/30/98 dips are within the acceptance of clients' expectations. Ibbotson optimization software, as well as those of other vendors, provides excellent visual and statistical chart tools to communicate how variation (volatility) reduces over time and returns get closer to their target returns over time—that is, within their profile limits (5 percent to 95 percent standard deviation limits).

One of our largest challenges has been to monitor the consistency of each fund manager to stay within their discipline of capitalization, style and selection. We stay in close touch with our fund managers by monitoring them against their peers and using "attribution analysis" to see when and if changes in style and capitalization have occurred. We have experienced slippage from our models when fund management changes, fund managers change and when the manager of the fund changes focus in stock selection, style and capitalization.

As an asset allocation method produces systematic—and therefore a limited range of returns—we are in the pro-camp of using consistent "active managers," acknowledging that they have the potential to contribute a premium or deficiency to total return. We have also employed tactical asset allocation models using fund group managers whose disciplines are more momentum based, such as investing in stocks that reflect "growth at a reasonable price." This latter tactical approach requires a more active monitoring of the degree of positive or negative success a manager may have in style timing and selection.

## Conclusion

The very low numeric chance of exceeding the optimized portfolio returns by random selection of an individual variable annuity or mutual fund suggests two possibilities: (1) that optimization and asset allocation do reduce risk and therefore enhance risk-adjusted returns and (2) that the managers of funds in this study (primarily institutional managers such as J.P. Morgan, Pimco and Banker's Trust) exceeded performance of most mutual fund

managers. These results are reinforced by the statistic that 79 percent of asset allocation mutual funds produced lower risk-adjusted performance than the Optimized Portfolio C.

While we recognize that this study was limited in scope, it does start to address probability outcomes of the non-diversified "dart thrower" who buys and holds a single variable annuity or mutual fund as a means of diversification in lieu of a broader-based, diversified portfolio of funds. Clearly, portfolio optimization and increase in holdings across bonds and stocks and across style and size of market capitalization do improve risk-adjusted returns. This study argues in favor of using multiple managers over a broad range of styles and capitalization, as well as using advanced optimization techniques. We can only report on the positive implications of Ibbotson Associates diversification methodology at this time. This does not rule out other approaches to optimization.

The question, "Does the risk/reward of these optimized variable annuity portfolios exceed those of similar optimized mutual fund portfolios?" is still an open question. To answer this, a study would need to analyze mutual fund companies who have optimized their funds into portfolios and have management styles that do not exhibit "style or market capitalization size drift." We will explore and contrast our findings in future studies.

## **Implications for the Financial Planning Community**

Asset allocation optimization as applied by Ibbotson Associates to the funds provides a meaningful way to assist delivery of steadier returns within the risk constraints of client expectations. Testing a client's risk profile assists in meeting their objectives.

The question is not solely whether an advisor "adds value" to passively managed index funds, but rather can an advisor help the client develop a livable framework of savings and investing that permits them to live in their financial house during periods of "exuberant excess" as well as periods of "market slips" so that their goals are reached.

Only when we, as advisors, gain insight to our own expertise and limitations can we begin to understand our clients comfort framework and value sets. We also believe that not all individual investors are willing to accept limited upside return potentials until they have knowledge of the pain of downside potential loss that may tie in to earlier life experience of other types of personal loss.

As the financial planning process for retirement seeks an after-inflation, after-tax "real rate of return" for growing client assets, the Ibbotson models support a means to match our clients' goals and suitability to their investments. These portfolios and their risk/reward limits form the basis for client investment policy statements. We are inclined to use the highly bond-funded portfolios (A-C) as interest rates decline and for those with shorter time horizons, and the stock-funded portfolios (D-E) as the clients risk tolerance and time horizon are greater. As the

goal of our financial planning practice is to provide steady long-term returns, we have adapted these models to our client's mutual fund, 401(k), variable life and variable annuity holdings.

These studies also support the view that careful work on the part of the planner can contribute to identifying client risk requirements and optimizing around these criteria to provide realistic expectation outcomes. Meeting these goals may be more helpful to the client's long-run benefit than simply selecting the lowest cost, highest return or a single index fund in vogue today. We intend to continue studies into this field of investigation as well as that of tactical asset allocation over the business cycle from a quantitative and technical viewpoint. n

## Endnotes

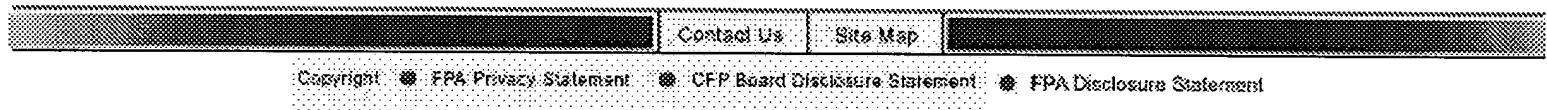
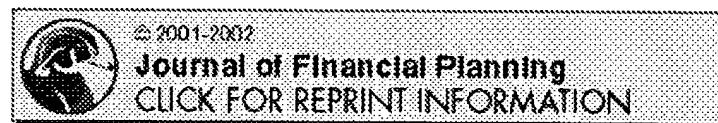
1. G. Brinson, L. R. Hood and G. L. Beebower, "Determinants of Performance, *Financial Analysts Journal*, July 1986, pp. 39-48.
2. We were unable to find any other continuously monitored portfolio of either mutual funds or variable annuities that used this strict discipline while adhering to the Ibbotson Consulting model. Thus, we undertook this study with those data available.
3. G. Brinson, et al., op. cit.
4. W. Jahnke, "The Asset Allocation Hoax," *Journal of Financial Planning*, February 1997.
5. W. Webb, "Asset Allocation: The Debate Continues," *Registered Representative Magazine*, January 1998, p. 72.
6. A. Arnott, "Asset Allocation: Revisiting the Debate," Morningstar Principia Commentary, 9/27/97.
7. This is not in disagreement with the Brinson studies of 1986 and 1991. Ibbotson also found that 87.6 percent of the variability of a fund's return across time is explained by this variability of policy returns. R.G. Ibbotson and Paul D. Kaplan, "Does Asset Allocation Policy Explain 40%, 90%, or 100% of Performance? [www.ibbotson.com/research](http://www.ibbotson.com/research), April 1999, pp. 1-13.
8. Appendix 3 and Appendix 4. It is possible that a fund with slightly inferior return but a better (lower standard deviation) may be relatively more suitable for the investor at that lower risk-adjusted level.
9. "Asset Allocation" according to Morningstar's prospectus objective, includes investments in stocks, bonds and cash.
10. R. McReynolds, "True Diversity in Flocks of Funds Is Hard to Achieve," *Ticker*, January 1999, pp. 46-47.
11. G. Butrimovitz, "Variable Annuities Under the Taxpayer Relief Act Of 1997 and the Stock Market Valuation Update," *The Advisors Network*, December 1997, Vol. 6, No. 13, pp. 50-52.
12. That is, asset allocation, as developed by the fund manager, contributes 21% to the total return of those funds that exceeded

the performance of Optimized Portfolio C.

13. "Attribution" as used here is not classical statistical attribution analysis in the manner performed by Ibbotson Associates. It is used here in a general manner to note which factors can be attributed to performance of these portfolios.

14. As only 164 funds of all mutual funds exceeded that of Portfolio C (Table 3), and 34 of these funds were asset allocation funds (Table 4), the residual 130 funds (164 – 34) were therefore not asset allocation funds. The ratio of these non-asset allocation funds to asset allocation plus non-asset allocation funds that exceeded the Portfolio C ( $130/164 = 79.3\%$ ), suggests that 79.3% of performance was due to non-asset allocation factors and 21 percent ( $34/164$ ) was due to asset allocation (Table 5).

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**Masters of the Universe**  
Pallay, Jessica  
Wall Street & Technology PP: 48-49 Jun 2004  
ISSN: 1060-989X JRNL CODE: WSC  
WORD COUNT: 1228

...DESCRIPTORS: **Investment** advisors

ABSTRACT: Financial firms have created "unified managed accounts," which consolidate a client's assets into one **investment** vehicle. Smith Barney, a unit of Citigroup, has gone full-steam ahead with a unified managed

account program. The firm went live with its Integrated **Investment** Services program about 6 months ago. In addition to integrating legacy systems, the firm also...

...TEXT: mutual funds, exchangetraded funds, hedge funds, separately managed accounts ... As the laundry list of possible **investment** vehicles grows, so does the job of the financial adviser.

"People are now throwing in..."

...That could be a motivator for (the adviser) not to reach out to all potential **investment** options. Part of working with a client is keeping things simple, and when you're...

...financial firms have created "unified managed accounts," which consolidate a client's assets into one **investment** vehicle.

"Broker-dealers are making efforts to consolidate and combine disparate managed-account programs into..."

...steam ahead with a unified managed account program. The firm went live with its Integrated **Investment** Services program about six months ago, according to Timothy Williams, senior vice president and product...

...of legacy systems that a firm has built up over the years for its various **investment** products. "It's about trying to get disparate systems to talk to each other," he...

...of its back-office systems and tap Integrated Decision Systems (Los-Angeles) for its Global **Investment** Manager 2000 application. Newberry says that the software performs three primary functions: it calculates performance...

...looked to Placemark Investments to provide what it calls Total Overlay Management services for 300 **investment** advisers, half of McDonald's adviser team.

Placemark, a Boston-based registered **investment** adviser, partners with Jersey City, N.J.-based CheckFree **Investment** Services to provide money-management and **portfolio - optimization** advice for investment managers. Placemark uses CheckFree's accounting systems and McDonald's client...

...function as "actively looking for the optimal portfolio implementation, client by client, that balances risk, **investment** return and taxes."

Audrey Harris, director of account . administration for the **investment** and banking services department at McDonald, explains that the firm still plays a vital role...

...she says.

Still, she adds, the concept of unified managed accounts is new to many **investment** managers. "A lot of people are waiting to see if this is going to work..."

...Lepore says, "Clients who are very tax sensitive appreciate sophisticated systems that distinguish between different **taxable** events that occur within their portfolios."

Increased product coverage.

Audrey Harris, McDonald Financial Group, explains...

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**Institutional real estate investment : Evolution and innovation**  
Conner, Philip; Liang, Youguo  
Real Estate Finance v20n3 PP: 2-10 Oct 2003  
ISSN: 0748-318X JRNL CODE: RFN  
WORD COUNT: 4636

**Institutional real estate investment : Evolution and innovation**

...ABSTRACT: the wide range of opportunities in real estate investing today by reviewing the evolution of **investment** strategies and vehicles over time and along the risk-return frontier.

...TEXT: and new opportunities created by cyclical and secular changes have spawned a wide array of **investment** vehicles and strategies. Although many investors recognize the enormous size of the real estate asset class, they often underestimate the diversity of **investment** opportunities that are available today. Institutional investing in real estate started with mortgages and direct...

...the wide range of opportunities in real estate investing today by reviewing the evolution of **investment** strategies and vehicles over time and along the risk-return frontier. Doing so, however, requires...

...distress in the real estate property and capital markets and give rise to higher-return **investment** opportunities.

EXHIBIT 1

**More Diverse Capital Sources, More Diverse Opportunities**

Finally, despite the cyclical patterns...

...These fundamental characteristics of real estate have been driving the evolution of the real estate **investment** market toward democratization of ownership, diversification of capital sources and better alignment between investor preferences and **investment** characteristics. The four-quadrant model, proposed in the early 1990s, shows one view of the expanded capital base and **investment** opportunity set created by the growth and development of the public equity and debt capital markets for real estate.

An alternative and potentially more investor-friendly way to describe the **investment** market in real estate is the opportunity frontier (see Exhibit 1). This diagram clearly illustrates the wide range of **investment** opportunities now available. Although actual investments using any of the seven approaches can fall almost...

...investments. Although the level of risk can vary widely depending on the structure of the **investment**, the structured debt market exploits the real estate capital structure to create fundamentally different instruments...

...in income-producing, stabilized properties with little or no leverage.

\* Public securities include real estate **investment** trusts (REITs), real estate operating companies, and in select international markets, publicly listed property unit...

...of capital markets arbitrage between the different segments (public and private, equity and debt, and **taxable** and tax-exempt) of the real estate industry's capital base.

\* Opportunistic investing is unique...

...always employ high leverage.

#### IN THE BEGINNING, THERE WAS DEBT AND EQUITY

Institutional real estate **investment** has gone through several major stages of development since pension fund investors first began investing...

...diversification was gaining increased attention as advances in technology made it easier to perform the **portfolio optimization** calculations that had been proposed by the academic community decades earlier. During the initial phase...

...benchmark for private real estate investments (the NCREIF Property Index<sup>2</sup>) and the introduction of institutional **investment** vehicles, such as fully diversified, open-end commingled funds, accelerated the "institutionalization" of asset-level...

...properties in major markets remained the focus of most investors' activities, higher-risk/higher-return **investment** opportunities in non-core properties and markets emerged to exploit underserved property and capital markets...

...most of which originated on Wall Street, were one of the few sources of private **investment** capital in the depths of the liquidity crisis, and many early investors were rewarded handsomely...

...opportunistic investments were abundant. As the recovery progressed, however, opportunity funds had to expand their **investment** activities to find investments that would produce opportunistic returns. Increasingly, these funds focused on select...

#### ...TWO TO FOUR QUADRANTS

Prior to the market collapse in the early 1990s, most institutional **investment** activity was confined to the private capital markets. This began to change in 1992-1993...

...cash flows through to investors more efficiently. The REIT market went through several iterations of **investment** strategies, from mortgages to development, but experienced relatively little growth in its first three decades...

...from about \$5.5 billion to more than \$125 billion.<sup>3</sup>

#### EXHIBIT 2

#### Real Estate **Investment** Life Cycle

##### EXHIBIT 3:

#### Financial Value-Added-Mezzanine Returns

The real estate market collapse also...

...basic characteristics of real estate investments in the growth and development of the real estate **investment** industry. While the capital-intensive nature of the industry compelled participants to tap the public...

...each with different riskreturn characteristics. In a typical CMBS issue, for example, the senior-rated **investment**-grade tranches have a priority claim to property cash flows over the subordinate tranches. As a result, these securities have relatively little default risk and behave very much like other **investment**-grade, fixed-income bonds. However, the subordinate, unrated tranches, or "B-pieces," are more susceptible...

...of the US real estate market in the second half of the 1990s, investors and **investment** managers found other ways to add value. Value-added investments arise from the dynamic interaction...

...equity position, usually with moderate to high levels of leverage, or some form of hybrid **investment**, like mezzanine financing.

The intermediate position of the mezzanine component between the senior debt and...

...positions provides unique risk-return characteristics that make mezzanine financing attractive as a value-added **investment**. To estimate the expected returns for a hypothetical mezzanine **investment**, we use a marginal pricing model to calculate the cost of capital for each piece...

...capital structure. Exhibit 3 shows the cost of capital, or expected returns, for a mezzanine **investment** in a capital structure composed of 70 percent debt, at an average cost of 5...

...deficiencies that the existing ownership either does not recognize or, more likely, cannot cure. An **investment** manager's ability to add value through operational activities often depends on the manager's...

...estate private equity investing is the latest development in the evolution of institutional real estate **investment** and, as the name implies, is a hybrid of real estate and private equity investing...

...underlying real estate assets-investors benefit from information, control and alignment while pursuing higher-return **investment** strategies.

Real estate private equity **investment** takes many forms but can be roughly segmented into three strategies: (1) venture, (2) growth...

...Venture capital private equity investments in real estate provide capital to startup firms with innovative **investment** ideas or to existing firms that are well positioned to exploit a high-growth market...

...creating value at the management level (i.e., through a good management team with sound **investment** ideas and a well-articulated strategy). The existing underlying corporate assets, or real estate, are...

...trade in the secondary market and have relatively low default risk, they behave like other **investment**-grade corporate bonds. As a result, the values of these securities are more sensitive to...

...but the potential investor base is much broader. Increasingly, traditional fixed-income investors are adding **investment** -grade CMBS to their fixed-income portfolios, which represent a significant potential new source of...

...new approaches to raising capital, investing, and managing risk have produced a wide array of **investment** vehicles and strategies. Many factors have contributed to this dynamic process: regulatory shifts, advances in...

...the essential characteristic of every innovation has been the attempt to satisfy the needs and **investment** preferences of capital users and capital providers.

Structured debt investments offer a broader range of...

...Estate Markets," Prudential Real Estate Investors, March 2003.

2. The National Council of Real Estate **investment** Fiduciaries (NC-REIF) compiles the NCREIF Property Index.

3. National Association of Real Estate **Investment** Trusts (NAREIT).

4. Commercial Mortgage Alert.

5. For a more complete discussion of mezzanine financing...

7/K/3 (Item 3 from file: 15)

DIALOG(R) File 15:ABI/Inform(R)

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02709368 544910641

**The Role of Singapore REITs in a Downside Risk Asset Allocation Framework**

Sing, Tien F; Ling, Sze C

Journal of Real Estate Portfolio Management v9n3 PP: 219-235 Sep-Dec 2003

ISSN: 1083-5547 JRNL CODE: JREP

WORD COUNT: 6324

...TEXT: and intensive management involvement are some drawbacks of direct real estate investments. Indirect real estate **investment** through securitization has been considered by institutional investors in Australia and the United States (U...

...secondary market instruments through which investors can make indirect claims on cash flows generated from **investment** and development activities of the listed companies. In May 1999, the Monetary Authority of Singapore ...

...based on practices in the Australian Listed Property Trust (LPT) market. The two real estate **investment** trust (REIT) markets not only share a similar institutional structure, they are also likely to...

...to their Net Tangible Asset (NTA) value.

In Australia, LPTs must distribute 95% of its **taxable** income in order to be exempted from the corporate tax. This is the same situation...

...costs involved in REIT transactions. They concluded that REITs are more like direct real estate **investment**, and less like stocks. Liang and

Whitaker (2000) also observed changing correlations between equity... differences in risks and return between the sectors imply that there are meaningful insights to investment allocations strategies by property sector.

Exhibit 8

Summary Statistics of Hypothetical Property Trusts

Exhibit 9...

...Risk

The use of standard deviation as measure of risk in the traditional Markowitz's portfolio optimization model is based on the assumption that investors view returns above the mean in the...

...is achieved when the REIT reduces the risk of the investor's portfolio of other investment assets.

2. Direct investment in a real asset involves management and maintenance expertise. It is generally an active approach...

...Source: [http://www.asx.com.au. \)](http://www.asx.com.au.)

5. "LPT Sector at a Glance" by the Property Investment Research (PIR) Australia, updated on July 11, 2003. (Source: <http://www.pir.com.au/lptglance...>)

...and Myer (1999).

7. Hartzell, Stivers, Ludgin and Pire (1999) used the Wilshire Real Estate Investment Trust sub-index (WREIT) in a full sample period from 1978 to 1998 and a...

...G. S. Sirmans and E. N. Zietz, Returns and Risk on Real Estate and Other Investment : More Evidence, Journal of Real Estate Portfolio Management, 2001, 7:3, 183-214.

Brueggeman, W. B., A. H. Chen and T. G. Thibodeau, Real Estate Investment Funds: Performance and Portfolio Considerations, Journal of the American Real Estate and Urban Economics Association...

...Management, 2001, 7:1, 43-54.

Corgel, J., W. McIntosh and S. Ott, Real Estate Investment Trusts: A Review of the Financial Economics Literature, Journal of Real Estate Literature, 1995, 3...

...Seiler, M., J. R. Webb and F. C. N. Myer, Diversification Issues in Real Estate Investment , Journal of Real Estate Literature, 1999, 7, 163-79.

Sing, T. F. and S. E...

02681558 475840061

**Valuing defined-benefit plans**

Jennings, William W; Reichenstein, William  
Financial Services Review v12n3 PP: 179-199 Fall 2003  
ISSN: 1057-0810 JRNL CODE: FSRE  
WORD COUNT: 8219

...TEXT: that generate spending money or that can be sold for spending money in the family **investment** portfolio; her first-generation approach to pension valuation uses Treasury bonds for the discount rate...

...for income above that level. The maximum allowable integration level is Social Security's maximum **taxable** earnings base (\$84,900 in 2002); plans frequently adopt this maximum. The difference between the...

...inappropriate.3

McLeod, Moody, and Phillips (1993) present a taxonomy of pension risks that include **investment** risks like inflation, liquidity, marketability, portfolio, reinvestment, and default as well as pension-specific risks... asset's after-tax values. For example, 401(k) accounts contain before-tax funds, while **taxable** accounts generally contain after-tax funds. Equating pretax funds from a 401(k) and after-tax funds from a **taxable** account in an asset allocation is an apples-to-oranges comparison-because of taxes due ...

...income. The tax adjustment, thus, might be different for income from DB plans versus other **taxable** income. Baer (2001) details the idiosyncrasies of state pension taxation. Third, while after-tax valuation...

...She has \$150,000 in a 401(k) and \$50,000 of bonds in a **taxable** account. The book value and market value of the bonds are \$50,000. She is ...

...between pretax funds in a 401(k) and the generally after-tax funds in a **taxable** account. In addition, following common financial planning advice, she places stock in the 401(k) and bonds in **taxable** accounts to the degree possible. Accordingly, as detailed in Table 7, her asset allocation, as...

...can be netted against pretax asset values and the net asset included in the expanded **portfolio optimization**. In contrast, the value of a mortgage does not move in synch with the property...  
...be included in the family's expanded portfolio and included in asset-mix decisions. Optimal **investment** solutions are more likely to come from managing the family's true portfolio. Since the...retirement accounts. Financial Services Review, 11 (3), 233-252.

Scott, M. C. (1995). Defining your **investment** portfolio: What should you include? AAII Journal, November. Available at: <http://www.aaii.com/ajmember> ...

...102, Academy, CO 80840, USA

b Baylor University, Pat and Thomas R. Powers Chair in **Investment** Management, Hankamer School of Business, P.O. Box 98004, Waco, TX 76798-8004, USA

Accepted...

7/K/5 (Item 5 from file: 15)  
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02675287 449936171  
**Is tax-loss harvesting worth it? Greater after-tax returns through active selection**  
Chance, Robin B; Hirshman, Susan; Fowler, Gordon B Jr  
Journal of Financial Planning v16n11 PP: 74-84 Nov 2003  
ISSN: 1040-3981 JRNL CODE: JFN  
WORD COUNT: 4070

...DESCRIPTORS: **Investment** policy

...ABSTRACT: second thoughts about their once unshakable belief that "the tax tail should never wag the **investment** dog." While many continue to base their stock selection on indexing, experts have learned that...

...TEXT: second thoughts about their once unshakable belief that "the tax tail should never wag the **investment** dog." Indeed, the pendulum may be swinging to the other extreme, with some starting to...

...viable long-term strategy.

However, by combining a reliable stock selection signal with a disciplined **portfolio optimization** process that maximizes expected after-tax returns and minimizes tracking error, it has become apparent...

...Research indicates that while tax-efficient indexing, or loss harvesting, can add value to a **taxable** portfolio, it has its limitations, even when used in conjunction with stock selection. In simulations...

...Strategies Compared

To analyze this theory, the following simulated performance of three U.S. equity **investment** strategies will be helpful-tax-efficient indexing (passive), tax-efficient indexing (active) and tax-aware...

...of this study. At each rebalancing, dividends were reinvested and taxes were paid on any **taxable** events that occurred during the previous month. For tax-efficient indexing strategies (both passive and...

...and realized tracking errors were computed. We also computed the post-tax monthly excess returns. **Taxable** investors have become accustomed to focusing on pre-liquidation post-tax returns because it is...

...proceeds in another security. If you decide to continue holding the security, your \$8,000 **investment** will grow to \$17,271.40 in ten years. But in the scenario where you...

...Passive) Adds Value

One popular strategy for adding after-tax alpha (excess returns) to a **taxable** client's portfolio is to invest using an index strategy but to harvest all losses...

...Berkin and Ye in their recent article, "Loss Harvesting: What's It Worth to the **Taxable** Investor?"<sup>2</sup> The authors explore the value that tax-advantaged investing can add to a **taxable** portfolio due to the deferral of taxes. Monte Carlo simulations were used to create various...

...further illustrates that there is great value to be had from successful stock picking for **taxable** investors. The value from loss harvesting tends to evaporate upon liquidation. In the end, the...

...taking tax losses, we were able to improve on a pure indexing approach in a **taxable** portfolio. Harvested losses provide an interest-free loan that can be used to generate **investment** returns. The mathematical nature of compounding makes this a very valuable option for **taxable** investors. But we believe we have also demonstrated that loss harvesting alone is not as valuable post-liquidation as an **investment** strategy that employs alpha insights to identify which losses to take.

Despite slowing equity markets...

...strategies to provide wealth solutions to the affluent market.

Gordon B. Fowler, Jr., is chief **investment** officer and senior vice president of the Glenmede Trust Company N.A. in Philadelphia, Pennsylvania. He is responsible for all **investment** policy and research for the firm.

7/K/6 (Item 6 from file: 15)  
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02667435 431586741  
**Dynamic asset allocation during different inflation scenarios**  
Nawrocki, David N; Evensky, Harold  
Journal of Financial Planning v16n10 PP: 42-50 Oct 2003  
ISSN: 1040-3981 JRNL CODE: JFN  
WORD COUNT: 3394

...DESCRIPTORS: **Investment** policy

...ABSTRACT: environment of low inflation, it is easy to overlook the effect that inflation has on **investment** portfolios. **Investment** strategies that work during periods of high inflation may not work during periods of low...

...TEXT: about this historic relationship. While inflation is currently quite low, financial planners are long-term **investment** advisors. The nature of their business suggests that a re-exploration of the economic significance...

...the time series and to reduce trading in order to prevent the churning of the **investment** account. Large changes in the smoothed series represent unexpected inflation and therefore unexpected monetary policy...

...trading rule that is evident from the 1951-1974 data is one that maintains an **investment** in stocks whenever inflation is less than four percent. At inflation levels above four percent...

...or long-term bonds. From 8 percent to 12 percent, Treasury bills are the preferred **investment**. Above 12 percent, stocks are back in favor. The

actual trading rules are as follows...

...above 12 percent. Between 4 and 8 percent, the strategy switches to a 100 percent **investment** in the Lehman Intermediate Bond index. From 8 to 12 percent, the strategy shifts investments...

...Whenever inflation is between 4 and 8 percent, the strategy switches to a 100 percent **investment** in intermediate bonds. When inflation is between 8 and 12 percent, the **investment** is switched to 100 percent Treasury bills. Above 12 percent inflation, the strategy returns to...

...strategy provides a less volatile performance and provides a closer look at performance of the **investment** strategy during the following periods of stressful markets: 1979-1982, 1987-1988 and 1990-1991...

...percent) over the complete sample period (1951-1998.) Even so, the strategies are useful to **investment** managers who are attempting to maintain portfolio liquidity during periods of market stress because of...

...by the CPI. Therefore, the switching rules would not have been triggered.

Second, tax-efficient **investment** has become an important issue in recent years as most financial advisors have a significant number of clients with **taxable** portfolios. The switching rules only trade, on average, once every 20 months (less than five...

...environment of low inflation, it is easy to overlook the effect that inflation has on **investment** portfolios. **Investment** strategies that work during periods of high inflation may not work during periods of low...

...and the Macroeconomy: The Long- and Short-Run Dynamics," Chopin, Marc, Maosen Zhong, Advances in **Investment** Analysis and Portfolio Management, 2000 <http://www.panagora.com/2001> crowell/2001 cp...

...professor of finance at Villanova University in Villanova, Pennsylvania. He is the author of a **portfolio optimization** package (PMSP Professional) and is the director of research for The Insight Group, an **investment** management firm. He can be reached at David.Nawrocki@Villanova.Edu.

Harold Evensky, CFP(R...)

7/K/7 (Item 7 from file: 15)

DIALOG(R) File 15:ABI/Inform(R)

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02642814 406413981

**Is past performance really indicative of future results?**

Bernicke, Ty; Mattson, Lucretia

Futures v32n10 PP: 34-37 Aug 2003

ISSN: 0746-2468 JRNL CODE: CMM

WORD COUNT: 2690

DESCRIPTORS: **Investment** policy...

...ABSTRACT: an investor allocates money to investments that have performed

well relative to other investments. Many **investment** companies have marketing material geared to teaching investors not to chase **investment** performance. However, every once in a while something comes along that is truly shocking and...

...TEXT: an investor allocates money to investments that have performed well relative to other investments. Many **investment** companies have marketing material geared to teaching investors not to chase **investment** performance.

However, every once in a while something comes along that truly shocks us and...

...the greatest golfer in the world.

Is it possible that we have erroneously entrusted our **investment** portfolios to similar modes of conventional wisdom? Our analysis shows that the conventional wisdom of...

...diversification between broad categories of stocks with periodic rebalancing to ensure an optimal allocation. Many **investment** companies and advisors have services that accommodate this strategy. This approach has been embraced by...

...Planning, December 2000.)

The stimulus to conduct this study was marketing literature from several major **investment** companies that indicated the pitfalls of chasing performance and the benefits of traditional asset allocation...

...rebalancing time frames: annually, quarterly and monthly, the times frequently used by investors, advisors and **investment** companies.

Our initial **investment** is \$10,000 with any gains or distributions assumed to be reinvested. No other monies...

...class. We wanted to use these results as a benchmark against the rebalanced results (see " **Investment** performance analysis, 1980-2001," above).

Strategy B is "Chase performance." With this strategy, we invest...

...of each new period into the appropriate asset class based on its prior period performance.

#### **INVESTMENT PERFORMANCE ANALYSIS, 1980-2001**

To accomplish this, we determine how the different indexes performed during ...

...performer is designated third and so on. We then rebalance the entire value of the **investment** based on this performance.

On the monthly basis, we first use the "chase the winner..."

...worst-performing index was the MSCI EAFE Growth. This strategy represents a wide variation of **investment** performances.

Strategy B "chase performance" has a range from \$734,644 to \$33,863 with... have been used the last 22 years, yet this is the advice from many major

**investment** companies analyzing the same 22 years with the same indexes.

#### THRILL OF THE CHASE

Next...

...fund performance appears driven almost entirely by trends in certain well-known and widely publicized **investment** categories.

Therefore, when making decisions on money allocation, investors should consider size and style characteristics...  
...as well as trends in performance.

The traditional approach to asset allocation involves developing an **investment** profile for an investor. Based on this **investment** profile, the investor or advisor develops an optimal asset mix that has targeted percentages for...

...management approach could also help to control portfolio risk. Investors then must ask how much **investment** performance they are willing to give up to reduce risk. The answer can come from modeling hypothetical allocations with **portfolio optimization** software.

"Breaking with tradition" (left) shows how an investor can increase returns by maintaining flexibility...long-term data. Examples are short-term debt, domestic and international bonds, real estate securities, **investment** hedges, commodities and other specific equity sectors.

When you model hypothetical portfolios, remember that our...

...cap growth stocks. Monitor past history of the account or the manager of the specific **investment** to determine if problems with style drift have occurred, a factor that could damage **investment** performance.  
Another limitation is the time horizon analyzed. Some may argue that the time horizon...

...Our analysis assumed that these strategies were implemented in a tax-deferred account. In a **taxable** account you must consider the impact of taxes.

#### BE ACTIVE

The relationships between index performances from one period to the next have serious implications for **investment** management. The traditional approach for portfolio rebalancing has been nearly the worst strategy we could...

...worked for Tiger Woods and Dr. Atkins.

#### MARKETING ADVICE

The reports below produced by these **investment** companies suggest following the hot performers isn't a smart financial move. Our study using  
...  
...of Diversification," Fidelity Investments

\* "20 Years of The Best and Worst Case for Diversification," MFS **Investment** Management

- \* "What's Wrong With Investing in Last Year's top Asset Class? It's...  
...pp. 45-56.
- \* Thomas J. Zwirlein and Venkateshwar K. Reddy, "Timing Patterns in Effective Periodic Investment Strategies," Journal of Financial Planning, August 2000, pp. 106-114.
- \* Herbert B. Mayo. "Investments: An...

7/K/8 (Item 8 from file: 15)  
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02626600 404139801  
**Points of inflection:** Investment management tomorrow  
Bernstein, Peter L  
Financial Analysts Journal v59n4 PP: 18-23 Jul/Aug 2003  
ISSN: 0015-198X JRNL CODE: FIA  
WORD COUNT: 5186

**Points of inflection:** Investment management tomorrow

DESCRIPTORS: Investment advisors...

... Investment policy

**ABSTRACT:** The world of investment management has passed through a point of inflection, which means the same forces that worked...

...be changed as to be almost unrecognizable, especially in research, indexing, benchmarking, and long-only investment. The supply chain of research material will never again concentrate under the roof of investment banking. When returns are not as easy to come by as in the past, the...

**TEXT:** Keywords: Investment Industry: future directions and sources of change

My presentation is going to focus on the future of the investment management business. Although I always have misgivings about the value of predictions, there is a...

...structures to performance measurement and management fees.

I must emphasize that my focus is on investment management. The wider world around us has also passed through important points of inflection-in ...

...against terrorism. These changes are mighty significant, but the spotlight today is on just plain investment management.

I shall begin by taking a moment to define exactly what I mean by a point of inflection. Then, I shall discuss four areas of investment management that appear to be undergoing the most profound changes.

What Is a Point of...

...the great lesson of Hegelian dialectics: Changes in quantity ultimately become changes in quality.

### The **Investment** Business and the Point of Inflection

**Investment** management has passed through such a point of inflection, not in its growth rate, but...

...early stages, growth was uninhibited and free of obstacles. But over time, these features of **investment** management became so common and so deeply entrenched in the **investment** process that they lost their dynamic impact. More seriously, they began to undergo qualitative changes...day, brokerage revenue has failed to cover the costs of research without a contribution from **investment** banking fees, forcing fine research boutiques like HC Wainwright & Company and Faulkner, Dawkins & Sullivan either to go out of business or to seek the shelter of **investment** banking firms. Others, such as Donaldson, Lufkin & Jenrette, joined the world and became more conventional brokerage/ **investment** banking firms. Ever since that day, soft dollar research and **investment** banking have operated under the same roof.

As the microbes multiplied, we arrived at the...

...investors into the capital markets. Economic change led to an explosion in the demand for **investment** banking. Growth in individual investors provoked a huge increase in the mutual fund industry. The demand for **investment** research soared, and aggressive **investment** banking firms were delighted to provide the supply. Just as with the microbes: There were...

...the point of inflection has been passed.

Efforts to separate the research process from the **investment** banking process are already under way, but getting from here to there is going to be more complex than many people, including the regulators, believe. Keeping the taint of **investment** banking away is no easy task in the real world, and so-called independent research...

...100 percent independent.

These developments are going to have an impact on the pocketbooks of **investment** management firms and their clients, whether or not that impact is visible to you at...

...But soft dollar research is not objective research. For how long will the clients of **investment** managers allow their assets to be managed in a world of hanky-panky? Objective research...

...you are going to have to confront the hard dollar route one way or another. **Investment** managers will have to do more of their own research or dip into their pockets to pay for outside research. Either way, management fees are likely to rise. Because **investment** management is a competitive business, I cannot predict whether managers or clients will bear the...

...pocket will ultimately depend on bargaining power, but one thing we do know: Paying an **investment** banker for research with a few cents a share is no longer a viable strategy...element in this picture over which the indexers have no control. When expected returns from **investment** portfolios were upward from 9 percent-and many have been into double

digits-beating the market was nice but alphas were not essential for meeting **investment** objectives. As expectations become more realistic, the hurdle of **investment** objectives looms higher. Now, taking on the risks of active management appears more attractive, even...in assets. Management of liabilities is an entirely separate matter and a challenge in itself.

**Investment** is about asset selection and allocation. Nothing I say here is an excuse to ignore all the important tools of valuation and risk control available to **investment** managers today. Awareness of exposures to market factors and disciplined valuation procedures are still essential...

...long-only investing inflicts upon their portfolios? Given the bias toward buy recommendations in most **investment** research and given the locked-in positions in which many **taxable** investors find themselves, should we not expect to find more alphas-more inefficiency-on the short side than on the long side? The **investment** managers at Harvard University today view the whole portfolio as a giant hedge fund-but...

...funds do most of their own research and tend to stay clear of what the **investment** banking houses have to offer.

\* Because hedge fund investing involves more specific risk than systematic  
...

...judgments about manager selection.

\* We might find this trend attracting money back into indexing, because **portfolio optimization** is likely to show that an index fund, or even an enhanced index fund, would...this approach as superior to long only.

Neither development persuades me to abandon my case. **Investment** management has passed through a point of inflection. The supply chain of research material will never again concentrate under the roof of **investment** banking. When returns are not as easy to come by as in the past, the...

...better than unskilled managers.

If these developments will not arrive without a shove from the **investment** fraternity, then please, my friends, give managers and their clients a hard and unrelenting push.

The world of **investment** management has passed through a point of inflection, which means the same forces that worked...

...investing.

Ever since May Day in 1975, brokerage revenue has been too low to finance **investment** research without the additional revenues of **investment** banking. But even though the old habit of paying for research with soft dollars made...

...their backs? Conference agendas today demonstrate that short selling is rapidly moving into the mainstream.

**Investment** management has passed through a point of inflection. The supply chain of **investment** research will never again concentrate under the roof of **investment** banking. When returns are not as easy to come by, the constraints on manager activity breadth and skill. Breadth is "the

number of independent **investment** decisions made each year." Skill is the information coefficient—that is, "the correlation of each...

...27, no. 3 (Spring):17-26.

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Peter L. Bernstein is president of Peter L. Bernstein, Inc...

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**A review of difficult investment policy issues**

Boone, Norman M; Lubitz, Linda S

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ISSN: 1040-3981 JRNL CODE: JFN

WORD COUNT: 5088

**A review of difficult investment policy issues**

DESCRIPTORS: **Investment** policy...

ABSTRACT: Some of the more difficult issues that arise for the advisor as an **investment** policy statement is being written are highlighted. The **investment** policy statement should be the basic building block in an intentional **investment** process. The **investment** policy statement serves 4 basic purposes: 1. identifying objectives, 2. defining the asset allocation policy, 3. establishing management procedures, and 4. determining communication procedures. A thorough and proper **investment** process has 9 steps. Each step relies on many different inputs, and will be uniquely...

...the time horizon. 4. Understand the client's risk tolerance. 5. Identify asset classes and **investment** vehicles. 6. Design the asset allocation. 7. Write the **investment** policy statement. 8. Select the **investment**. 9. Monitor, manage and report.

...TEXT: article looks at the many challenging issues the advisor needs to address in developing an **investment** policy statement for a client. There is no one right way to look at any...

...the investors' time horizon and risk tolerance, handling concentrated or low-basis positions, tax considerations, **portfolio optimization**, outside **investment** accounts, and rebalancing and monitoring activities. While **investment** policy statements have for years been a required part of

ERISA (Employee Retirement Income Security...

...to highlight some of the more difficult issues that arise for the advisor as the **investment** policy statement is being written.

The **investment** policy statement (IPS) should be the basic building block in an intentional **investment** process. In creating an IPS, the advisor and the client agree upon all of the...

...you to build a more complete, relevant and personalized IPS for your client.

#### Overview

The **investment** policy statement serves four basic purposes:

1. Identifying objectives--to establish clear, reasonable and definable expectations, risk and return objectives, and guidelines for the **investment** of the assets.
2. Defining the asset allocation policy--to set forth a structure and identify the **investment** asset classes that will achieve a diversified portfolio, as well as to determine how those...

...accounts where a fiduciary responsibility exists, it is a legal imperative to have a written **investment** policy statement.

Our experience is that the process of developing the IPS provides such a...

...every client.

Two caveats are worth repeating: (1) if you are going to create an **investment** policy statement, it is only useful if it is in writing; and (2) if you have an IPS, it is essential that you follow it. Worse than not having an **investment** policy statement is to have one and ignore it.

#### Components of an IPS

There is...

...less arduous and timeconsuming. Our approach is to categorize the common components of a complete **investment** policy statement into seven parts:

1. Introduction-purpose of the IPS and an explanation of...

...structured as suggested

2. Key factual and account information and summary of investor circumstances

3. **Investment** objectives, time horizon and risk attitudes

4. Permissible asset classes, constraints and restrictions

5. The...

...help save time as well as improve the output.

#### The Nine Steps of a Proper **Investment** Process

A thorough and proper **investment** process has nine steps. Each step relies on many different inputs and will be uniquely...

...s input as well.

We use a questionnaire that not only asks the client about **investment** objectives and risk tolerance, but also what they think about each of the policy issues...

...identifies and addresses each critical issue helps the advisor create a more thoughtful and intentional **investment** process. It also raises the client's confidence in the advisor. What are these issues...support these desires. Where do you fit on this continuum? We believe that the best **investment** policy statements are developed after a more in-depth investigation of the client's goals...

...periodically replenish the money market account with portfolio interest, dividends, and capital gain distributions and **investment** sales to keep the account at the desired level. The determination of how much to...

...in identifying a return objective. You have a professional obligation to ensure that the expected **investment** returns will satisfy the client's goals and that the accompanying portfolio volatility is within...

...conflict and the implications and perhaps in finding necessary compromises.

If you determine that the **investment** plan will be inadequate for the client's long-term needs and yet you implement...

...to handle shortterm and longer-term liquidity needs. For example, if a portion of the **investment** portfolio will be used for college expenses for undergraduate and graduate years, at what point...

...mortality to be used in a capital needs analysis.

Often a client believes that their **investment** allocation should be significantly altered when they reach retirement age. How will you handle this...30year time horizon at retirement. How conservative can the client afford to be?

If the **investment** portfolio being considered under the IPS is a qualified retirement plan and the owner-client...

...use that information in designing the portfolio need to be recorded as part of the **investment** policy statement. The client owns (and will be living emotionally) with his or her own **investment** policy. Therefore, the more clearly you describe what the client was thinking at the time and how that was used to establish the **investment** approach could be important as a historical record should there be a later disagreement.

For...

...attainable and consistent with the client's goals.

#### Step 5: Identification of Asset Classes and **Investment** Vehicles

Addressing concentrated positions. Besides the basic identification of the asset classes, how do you handle a portfolio with a concentration of a

single stock, or **investment** sector? Possibly your client has one or more securities that they don't want to...

...say a client comes to you with an outsized position (50 percent of their **investment** wealth) in General Electric stock. If they want to continue to hold GE, what are...

...come up with an approach that works for each of you and is operationally practical.

**Investment** style. Are you a proponent of passively managed vehicles such as index funds or exchange...is choosing where to put different assets and the format the assets will take. For **taxable** accounts, it may be desirable to minimize both current income and turnover (thus lowering annual **taxable** capital gains). For tax-deferred accounts, it may be an attractive option to try to...

...in the taxdeferred accounts to take fullest advantage of the compounding opportunities, or in the **taxable** account to take advantage of lower capital gains rates?

Will you attempt to regularly harvest...for each one? What if that retirement plan doesn't offer the complete range of **investment** choices you recommend in your **investment** policy? Are you going to recommend an asset allocation specifically for the retirement plan? If...

...responsibilities do you have to monitor changes in managers and values?

#### Step 7. Write the **Investment** Policy Statement

The final two steps in the **investment** process-selecting the investments and then managing the portfolio-necessarily arise after the IPS is written. These are the implementation steps and by definition should be directed by the **investment** policy statement.

#### Step 8. Select the Investments

You have already identified the asset classes and types of **investment** vehicles to be included in the portfolio. The next step is what the client normally believes is the most important part of the process- **investment** selection. As most of us have come to believe, selection of specific securities is relatively...

...to understand your process methodology.

If you have decided to employ a passive approach to **investment** management, will you use mutual funds, exchange traded funds or some other approach? Why?

If...

...have an interest in, and influence over, some or much of what goes into the **investment** policy development. Where this situation exists, it may be helpful to identify who they are...

...example, who gets a copy of the IPS? Do they need to be informed about **investment** changes or recommendations? Before the fact or just as a courtesy?

Step 9: Monitoring, Managing...

...30 percent or rose above 50 percent.

Will you employ a different rebalancing approach in **taxable** accounts than in taxdeferred accounts? Will you treat extremely volatile asset classes any differently than...

...you are monitoring?

Both the advisor and the client benefit from the regular use of **investment** policy statements. The best **investment** policy statements are those in which the issues described in this article have been discussed...

...advisor and the client.

#### Web Sites of Interest

\* Re Draft of the Statement of Ethical **Investment** Policy  
Statement of Ethical **Investment**

Policy and Ethical **Investment**

Policy Statement.

[www.churchinwales.org.uk/gb/EthicalInvestmentgb902.htm](http://www.churchinwales.org.uk/gb/EthicalInvestmentgb902.htm)

\* Fiduciary **Investment** Compliance Checklist: The objective of the checklist is to assist **investment** fiduciaries who are subject to ERISA or the Uniform Prudent Investor Act.

[www.chartwellusa.com...](http://www.chartwellusa.com...)

...Hopewell/Mistakes.pdf

\* The Management of **Investment** Decisions, by Donald B. Trone, et al.  
[www.booksforinvestors.com/abooks/1/0786303921AMUS14663.html](http://www.booksforinvestors.com/abooks/1/0786303921AMUS14663.html)

\* **Investment** Policy Statement Guidebook, version 2.1 by Norman M. Boone, CFP, and Linda S. Lubitz...  
...id=IBP R4520021

For more detailed background if you are not familiar with **investment** policy statements, we suggest you read our previous article "Developing the **Investment** Policy Statement," which can be found on the past issues section of FPA's Journal...

...CFP, and Linda S. Lubitz CFP, are co-- authors of the forthcoming book Creating an **Investment** Policy Statement-Guidelines & Templates. They have their respective financial planning firms in Son Francisco, California...

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02399414 144832831  
**Mutual fund strategies**

Harrington, Cynthia  
Journal of Accountancy v194n2 PP: 28-32 Aug 2002  
ISSN: 0021-8448 JRNL CODE: JAC  
WORD COUNT: 3076

...DESCRIPTORS: **Investment policy**

...ABSTRACT: funds still are around because they continue to serve investors' needs for diversification and professional **investment** management. They are growing because they can adapt to demands for improved products and because...

...at better long-term performance, they also provide CPAs with an edge in using this **investment** product. This article presents a review of the new analytical tools that can help CPAs...

...TEXT: funds still are around because they continue to serve investors' needs for diversification and professional **investment** management. They are growing because they can adapt to demands for improved products and because...

...at better long-term performance, they also provide CPAs with an edge in using this **investment** product. The bottom line? If mutual funds haven't been part of your client's...

...every size and flavor and management has worked diligently to reduce the annual bite for **taxable** investors by lowering portfolio turnover.

In addition to the efforts by fund management, CPAs are getting another boon in helping clients manage **investment** taxes. The SEC-mandated aftertax performance reporting will spread across the industry this year. CPAs...

...cater to smaller investors.

#### FUND STRATEGIES

It's the CPA's job to put new **investment** products to work for their clients. Quest Capital uses sector funds to add incremental performance to the overall portfolio. Carl Kunhardt, who chairs the firm's **investment** committee, makes predictions on sector movements. He expected and received higher returns from the communication...laddered strategy within the traditional mutual fund structure. According to Brian McMahon, president and chief **investment** officer for Santa Fe, New Mexico-based Thornburg **Investment** Management, the company has managed its list of funds the same way since it started...

...is software that looks at the setup of the overall portfolio including style analysis and **portfolio optimization**. But neither stops there. "We continue our work with Overlap, which analyzes each security a...

...accounts: Something seemed to change with the portfolio decision-making process. An inquiry to the **Investment** Management Consultants Association, to which he belongs, revealed the difference. Virtually all the manager's ...its assets in its namesake.

CYNTHIA HARRINGTON, CFA, is a financial journalist with 20 years' **investment** experience. She began her career as a stockbroker and ended it as the owner and chief **investment** officer of an asset management firm

serving high-net-worth clients. Her work appears in...  
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**Changing equity premium implications for wealth management portfolio design and implementation**

Evensky, Harold

Journal of Financial Planning v15n6 PP: 76-90 Jun 2002

ISSN: 1040-3981 JRNLD CODE: JFN

WORD COUNT: 4628

**ABSTRACT:** The wealth management **investment** model of diversified multi-asset-class/style portfolios, implemented by selecting style-consistent active managers...

...clients or practitioners well. As a consequence, wealth managers should revisit and possibly revise many **investment** aspects of their current practice.

**TEXT: Contributions**

The wealth management **investment** model of diversified multiasset-class/style portfolios, implemented by selecting style--consistent active managers, has...

...has been no discussion regarding the implications of lower market returns on the wealth management **investment** model. This paper concludes that in an environment of lower market returns, the current model...

...clients or practitioners well. As a consequence, wealth managers should revisit and possibly revise many **investment** aspects of their current practice.

"We don't like their sound and guitar music is..."

...the Beatles, 1962

During the last few years, there has been an increasing focus of **investment** research, articles and programs on the subject of the equity premium and the implications for...

...known as wealth management has become the predominant model for retail financial services firms. The **investment** process wealth managers currently use for designing and implementing portfolio strategies for their clients has been modeled after **investment** policy design and implementation strategies developed for large tax-exempt institutional clients. This has led...

...wealth management and the clients of wealth managers. This paper specifically addresses the impact on **investment** practices. It makes the argument that, although traditional wealth management **investment** practice has been an effective model for both practitioners and their clients, this approach may...

...of lower market returns. As a consequence, wealth managers should revisit and possibly revise many **investment** aspects of their current practice. Most significantly, this paper concludes that the performance

drag of...

...a low-return environment so seriously undermine the portfolio alpha, provided by current wealth management **investment** practices, that a new **investment** models) must be developed.

#### Background

Many financial planning professionals, as well as many of their...

...finance. In particular, many wealth managers have incorporated a number of key concepts of modern **investment** theory (Graham, Markowitz, Sharpe and Brinson) into **investment** planning for their clients.

TABLE 1

These concepts, such as mean variance optimization, efficient frontiers...

...up the general consensus, Lynn Hopewell wrote in 1995, "The essence of asset management is **investment** policy, portfolio design and performance measurement. The technical tools are modern portfolio theory and statistics ...

...professionally correct process for portfolio design is the development of a sound and well diversified **investment** policy, modern law (ERISA, the Third Restatement of Trusts, Uniform Prudent Investor Act) mandates adherence to this process. Leveraging off the experience of large institutional **investment** managers and consultants to implement these concepts, the practical result has been a professional commitment...

...be reduced to nothing more than a shimmering mirage-at least for portfolios that hold **taxable** investments. The prospect of a substantially diminished equity-risk premium is a "malignancy" that threatens...

...expect the equity premium to be in the future? Somewhat unique in the annals of **investment** debates, the conclusions of the participants-practitioner and academic, efficient and inefficient market proponents-tend...classes" (Evensky 1997). As noted earlier, this conclusion was based on a long history of **investment** research, legal mandates and institutional experience.

The primary **investment** strategy used by many wealth managers has been the adoption of an institutional strategy based...

...triggered by manager changes (due to unacceptable performance, style drift or personnel changes, for example), **investment** policy changes (such as changing market expectations or changes in acceptable asset classes/styles), client...

...to volatile markets and so on), and fund actions (such as policy changes or extraordinary **taxable** distributions).

Following are some problems with the current model:

\* Clients are subject to numerous forms...

...influenced by their unique cash flow and tax basis.

\* Clients have numerous "pockets" of investments: **taxable**, tax deferred and tax free.

- \* Tax payments do not necessarily come from the portfolio generating the **taxable** event. "Portfolios don't pay taxes, people do" (Stein 1999).
- \* The **taxable** world is multiperiod. **Investment** decisions in one period have effects on after-tax returns in subsequent periods. This multiperiod ...  
...of portfolio management results in contingent future tax liabilities (Poterba 1999).
- \* The traditional approach to **portfolio optimization** incorporates the concept of rebalancing. There is an intrinsic contradiction for **taxable** investors as continuous rebalancing results in continuous exposure to taxes (Korn 2001).
- \* Viable efficient frontier...  
...inefficient due to the lack of active tax coordination among the managers.  
In summary, the **taxable** efficient frontier is three-dimensional—expected return, risk and taxes. Thus, the impact of taxes...the market return.
- Evaluation of the costs. Clients incur five primary costs associated with the **investment** advice and management services provided by wealth managers: the wealth manager's fee, custodial costs, transaction costs, and **investment** manager fees and taxes. A significant portion of the value added by the wealth manager...  
...considered by practitioners when setting a threshold alpha factor benchmark to determine if the traditional **investment** model can cover its costs. The most important of these factors include
  - \* Manager replacement.
  - \* Rebalancing...  
...unanticipated and unpleasant year-end tax consequences.
- \* Client behavior—clients do not necessarily make their **investment** decisions in accordance with classical economic theory. Clients often trigger portfolio transactions that are neither...  
...the traditional multi-asset class/style, multi-manager model is no longer appropriate for most **taxable** accounts. The question wealth managers must address is, what issues need to be considered in developing a new model? The key to a successful **investment** model will be one focused on an optimal strategy instead of an optimal portfolio (Brunel...of the unique aspects of an individual client's circumstances. One of the most promising **investment** models is "core and tactical satellite." This model allocates a significant portion of the equity **investment** to a passive taxmanaged core (possibly with style or class tilt). The balance of the...  
...changes in satellite managers. The total portfolio is managed to be dynamically efficient in a **taxable** client's three-dimensional **investment** space (return, risk and taxes). This may become the basic wealth manager **investment** model for the future.

Conclusion

Wealth managers do not have the luxury of telling their...

...of clients' ability to meet their goals.

The lessons of Markowitz and the importance of **investment** policy as demonstrated by Brinson remain valid today. However, the multi-asset class, multi-manager **investment** policy model, developed for large tax-exempt institutional clients and adopted for wealth management advisors, may no longer be appropriate for many **taxable** clients. The current model is inherently tax-oblivious and at best tax-- inefficient. It also...

...In the future, it is unlikely that the portfolio alpha associated with current wealth management **investment** practices will cover the drag of taxes and expenses.

Myopia is dangerous for both our...

...well-being. It is imperative that wealth managers revisit some of their most closely held **investment** beliefs and ask if they are still applicable today. Many may no longer be appropriate...Arnott, Robert, Andrew Berkin and Jia Ye. "Loss Harvesting: What's It Worth to the **Taxable** Investor?" Journal of Wealth Management, Spring 2001.

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**Adding investment services to your firm**  
Alvare, Thomas N  
Pennsylvania CPA Journal v72n2 PP: 28-31 Summer 2001  
ISSN: 0746-1062 JRNL CODE: PCP

WORD COUNT: 2372

### **Adding investment services to your firm**

...DESCRIPTORS: **Investment** policy

...ABSTRACT: discount broker, mutual fund company and insurance company, as well as prestigious money managers and **investment** bankers, are falling over themselves to "affiliate" or somehow get CPAs into the **investment** advice business. Today there is a risk that those CPAs who haven't yet found their way into the **investment** business will become overwhelmed by this decision's magnitude, the multitude of choices and potential...

...TEXT: a week goes by without another article in a major publication about CPAs entering the **investment** business. Similarly, not a week goes by without an attractive marketing piece or a friendly solicitation from some well-intended potential "partner" offering a program to provide client **investment** services. It seems that nearly every major brokerage house, discount broker, mutual fund company and insurance company, as well as prestigious money managers and **investment** bankers, are falling over themselves to "affiliate" or somehow get CPAs into the **investment** advice business.

Today there's a risk that those CPAs who haven't yet found their way into the **investment** business will become overwhelmed by this decision's magnitude, the multitude of choices and potential repercussions.

Your philosophy defines your services

The best way to develop prudent **investment** strategies is in the context of an overall financial and tax plan. The first three...

...provide a philosophical background that can help CPAs determine how to position themselves when developing **investment** advisory services for their clients. SR.PFP No. 1 states that PFP engagements may address...

...of Professional Conduct applies to all matters in a personal financial planning engagement, including specific **investment** advice. The Code's Rule 102, Integrity and Objectivity, states that CPAs must maintain objectivity...

...arrangements.

Obviously, the dc it is open for CPAs to assist clients using a feeonly **investment** advisory model, a commission-based model, or collect fees in a referral nodel as long...

...Pennsylvania CPA Statute and regulations. The key question then becomes how do CPAs choose the **investment** advisory business model that complies with the Code while enhancing our status as a trusted...

...showing personal bias. Instead, here are my firm's goals, which enables us to offer **investment** and financial planning services in a fee-only environment. We have been building and refining our service model in-house for about a decade. We chose the Registered **Investment** Advisor (RIA) route primarily because our goal was to help every one of our clients develop a single, comprehensive **investment** policy statement (IPS) that covers all their **investment** assets regardless of the custodians location. We envisioned our final "service product" and came to...

...aspects of the IPS should clearly describe the following:

1. Client's risk profile
2. **Investment** time horizon
3. The client's **investment** objectives, including cash flow and income tax issues
4. Overall constraints or those unique to...  
...projections of risk and returns
7. Recommended asset classes and target asset allocation percentages
8. **Investment** decision criteria including selection and retention of money managers, mutual fund managers and specific securities...

...define our process and outline the final report the client expects. We believe that the **investment** advisory relationship founded on a financial planning process is the key service having the supreme...

...Each of our client's needs and desires to build and protect assets, reduce their **taxable** estates and reduce annual income taxes in the process, has a tremendous impact on their **investment** choices. These needs and goals dictate how our firm defines clients' cash flows, **investment** time horizons, prudent risk levels and strategies for reducing **investment** costs. Each client's individual financial situation therefore drives his or her **investment** plan development.

With the end product governed by our philosophical underpinnings, we can now define the specific operational process of an **Investment** Advisory Firm. This process defines all of our basic needs, from staffing to software, to...

...obtaining information about the resources needed. A good starting point is the AICPA Center for **Investment** Advisory Services; ([www.investmentadvisory.aicpa.org](http://www.investmentadvisory.aicpa.org)), which provides a list of recommended resource providers. Review each one to determine what best suits your needs and style.

Steps to establish an **investment** advisory service  
Compliance - If you choose the RIA model, you'll need help with filing... pass the Series 65 exam or qualify for an exemption. That person is considered an **Investment** Advisory Representative. The firm is considered the RIA. If you choose the brokerdealer (BD) route...

...investor rules, and how to build portfolios and IPSs for your clients. There's sound **portfolio optimization** software out there, excellent books on the subjects, and your custodians provide great research and...

...key alliances you make in this area to bring depth, experience and credibility to your **investment** management process. The AICPA and the PICPA also provide helpful resources, CPE and technical conferences...

...and presentation capabilities to address the firms unique benefits for your client. Your allocation or **portfolio optimization** software can provide tools to assess risk tolerance and illustrate how they translate

into an...

...Multiple meetings are commonplace. A sample meeting agenda is listed below:

Briefly introduce the firm, **investment** policy, and process  
Educate clients on the capital markets, historical returns and volatility

Assess client risk tolerance

Get information now and list the missing items

Sign the financial planning and **investment** advisory agreements

Developing an **investment** plan - At this stage, you develop specific recommendations about what a client should keep, sell...

...account basis. Tax issues, goal funding, cash requirements, choice of custodians, portfolio expenses and specific **investment** options available to the client will come into play here. If you are working with...

...of the client's assets in the plan and who will actually perform various functions. **Investment** expertise is needed in this process but the science becomes art when the advisor integrates...

...so we invested in in-house tools and training to customize solutions for each client.

**Investment** policy statement & recommendations meeting - A thorough review of the recommendations and presentation of the planned scenario takes place. You should discuss with the client the **investment** policy statement goals and parameters, as well as any administrative issues. At this point the...

...authorizes the implementation phase. The client should approve and sign account contracts and agreements, the **investment** policy statement, power of attorney documents and an authorization to deduct fees.

Set up accounts...

...cash to and receive it from clients

\* Monitor how actual investments meet the client's **investment** policy statement

\* Prepare and send client performance reports (quarterly and annually)

\* Consider consolidation with other...

...such as 401(k) plans and insurance policies

\* Prepare and send bills or collect fees.

**Investment** plan updates

\*Reviews and adjust the **investment** plan

\* Rebalance accounts to meet **investment** policy statement goals

\* Meet periodically with the client

Many variations to this process could develop...control how each element of the process is delivered to the client.

To justify the **investment** to develop such a business, a CPA firm should have a mixed client base with...

...million in billings, a typical CPA firm's clientele will have about \$100 million in **investment** assets. While it is unlikely that a CPA could capture and manage every client's investable assets, capturing 25% to 35% is an admirable goal. With average **investment** advisor revenues declining to about .8% of assets under management annually, a CPA firm billing \$3 million could potentially generate \$750,000 in annual **investment** advisory revenue. This type of operation requires a staff of three to five.

For firms...

...you assess your philosophical foundation, let that guide your approach to helping clients address their **investment** needs. As you affiliate with others, consider how each aspect of the service delivered to...

...responsibility for your clients' financial successes.

Thomas N. Alvare, CPA, PFS, is president of Comprehensive **Investment** Solutions, Inc. (CIS) and a partner of Drucker & Scaccetti, PC, a Philadelphia CPA firm. CIS...

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**Determinants of financial success**  
Jahnke, William  
Journal of Financial Planning v11n3 PP: 34-36 Jun 1998  
ISSN: 1040-3981 JRNL CODE: JFN  
WORD COUNT: 1444

...DESCRIPTORS: **Investment** advisors

...ABSTRACT: modeling. The challenge to the industry is to meaningfully quantify and integrate financial planning and **investment** management. Quantification permits the evaluation of the relative importance of the determinants for financial success and provides the advisor the basis for determining the most appropriate **investment** program in terms of most likely and downside portfolio values.

TEXT: Investors are interested in what they can expect from their **investment** program and whether their **investment** success will be sufficient to make them financially successful. Most clients of financial planners and **investment** advisors should be interested in having two questions answered: "How much wealth will I need..."  
...to fund my retirement?" and "How much wealth am I likely to accumulate from my **investment** programs?" How often are these questions addressed together? Unfortunately, not often enough.

There is a lack of connection between the services provided by the **investment** management industry and what the market needs. Clients are

generally being sold false prospects of achieving superior **investment** returns-something the industry as a whole cannot do and something most **investment** advisors fail to do. What they need, instead, is help in achieving financial success. For...

...expenses.

The achievement of financial success has more to do with integrating financial planning and **investment** management than it does with an attempt to search out superior **investment** opportunities. To increase the likelihood of being financially successful, clients should understand the factors that...

...them toward achieving their goals. The objective of such a process should be to match **investment** solutions to financial goals-these are not **investment** return goals. Rather, they are the targeted portfolio values required to fund retirement expenditures. The...

...financial planners find this difficult and choose to avoid it. It is also something that **investment** management professionals almost universally avoid.

#### Financial Success Ratio

The relationship between the projected portfolio value...

...client make some choices. The client can plan to save more, seek higher rates of **investment** return, reduce planned retirement expenses or plan to retire later. By maintaining an FSR greater...

...generally and the FSR specifically can be decomposed and analyzed for their relative importance:

Current **taxable** and taxdeferred assets

Planned savings

Expected wealth transfers  
Planned retirement date

Planned retirement expenses

Social Security benefits

Tax rates

Inflation

**Investment** return

It comes as no surprise that changes in assumptions in any of these factors can have a large impact on the future value of a client's **investment** portfolio. Client education should be directed toward helping the client understand the interplay of these...

...The challenge is to provide meaningful answers to the questions posed in Table 1.

The **investment** return assumptions are critical in projecting a client's financial success ratio. The advisor needs...  
...a future column. The focus here is the broader framework that integrates financial planning and **investment** management.

(Table Omitted)

Captioned as: TABLE 1

Market math also can be used to forecast...

...evaluated in terms of the most likely and the downside FSR. The client's best **investment** solution today is the one that produces both the most attractive FSR and downside FSR solution. The advisor can present the implications of alternative **investment** solutions to the client in terms of FSR, future portfolio value, and projected annual retirement income.

#### Departure from Modern Portfolio Theory

Evaluating **investment** alternatives in terms of FSR and downside FSR represents a significant departure from modern portfolio theory solutions produced by single-period mean-variance **portfolio optimization**. Single-period mean-variance **portfolio optimization** is an elegant solution to an over-simplified **investment** problem, a solution that provides wonderful insights on the mathematics of diversification and efficient portfolio selection. Unfortunately, the single-period **investment** problem is not the one investors actually face. This is why the Markowitz single-period mean-variance solution is discussed more in **investment** classes than actually used to manage **investment** portfolios. While the theoretical work by Markowitz extended to forms of portfolio selection other than single-period mean-variance **portfolio optimization**, there is little evidence of it in **investment** practice.

According to single-period meanvariance portfolio selection, the **investment** objective is to maximize investor utility by maximizing expected portfolio returns minus a penalty for...will have difficulty quantifying risk tolerance. This is a fundamental problem with applying single-period **portfolio optimization** in the real world. No one really knows how to quantify a client's risk...

...46 years since Markowitz published his landmark work, "Portfolio Selection," and the vast majority of **investment** portfolios are still managed conventionally. The vast majority of advisors who manage portfolios to meet client **investment** objectives do not quantify expected returns, and, in most cases, **investment** objectives and risk tolerance are not quantified, either. These **investment** managers conscientiously buy and hold investments that they think will outperform the benchmark against which...

...analysis is available, it usually comes from an econometric model not well understood by the **investment** manager. Consequently, the quantitative risk measurements have little impact on actual **investment** decisions, and the stage is set for client confusion and disappointment.

In conclusion, it is...

...modeling. The challenge to the industry is to meaningfully quantify and integrate financial planning and **investment** management. Quantification

permits the evaluation of the relative importance of the determinants for financial success and provides the advisor the basis for determining the most appropriate **investment** program in terms of most likely and downside portfolio values. a

Author Affiliation:

William Jahnke is chairman and chief **investment** officer of Financial Design Educational Corporation based in Larkspur, California.

7/K/14 (Item 14 from file: 15)

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01416666 00067653

**CRTs address one investment problem by posing others**

Ziv, Brian C

Trusts & Estates v136n6 PP: 16-20 May 1997

ISSN: 0041-3682 JRNL CODE: TRE

WORD COUNT: 2188

**CRTs address one investment problem by posing others**

...DESCRIPTORS: **Investment** policy

...ABSTRACT: payout. Problems presented by the establishment of CRTs are tractable with thoughtful application of established **investment** techniques.

...TEXT: Charitable Remainder Trusts (CRTs) are commonly regarded as tax planning vehicles, but actually address an **investment** problem first and a tax problem second. After all, an asset holder who is happy...

...different concept of risk than most individual investors are accustomed to using; 2) reflect an **investment** horizon that may differ from that of the rest of donor's portfolio; and 3) use **investment** strategies that take advantage of the CRT's special tax status. This article sketches the implications of these differences for CRT **investment** policy.

A Different Concept Of Risk

THE ANNUAL PAYOUT goals typical of CRTs define a...

...donor), the CRT will run some risk of earning less than the payout goal. Even **investment** grade corporate bonds can, after all, default.

Once the donor accepts the need to quantify return probabilities, he or she implicitly accepts laying the groundwork for formal **portfolio optimization**. (**Portfolio optimization** is a mathematical process for identifying the asset mix that provides the highest expected returns...)

...noting caveats), many CRTs can sensibly consider a wider range of asset classes than ordinary **taxable** portfolios. Increasing the number of asset classes in a portfolio improves the resilience of the...

...risk, return and correlation estimates for high yield bonds.

A Different Horizon

THE CRT's **INVESTMENT** horizon and implications of the CRT's tax status also bear on optimization questions.

More than most portfolios, CRTs have to be concerned with short term **investment** horizons. Some CRTs specify annual withdrawal only of income produced by the portfolio, but more...article, I focus on fixed annual withdrawals.)

Annual withdrawals do not, however, settle the appropriate **investment** horizon for CRT holdings. A portfolio that does not earn the payout in a given...

...about long-term asset class returns and short-term portfolio returns.

Counter-intuitively, the short **investment** horizon of a CRAT portfolio in particular encourages the donor to adopt a higher return...

...inappropriate in an ordinary portfolio become attractive inside of a CRT. A number of nontraditional **investment** strategies thereby become attractive for CRTs.

Merger arbitrage strategies, for example, can often postpone gains...  
...ownership of securities and employment of strategies that would be unattractive in a personal portfolio. **Taxable** bonds, of course, make more sense in a CRT than lowyielding municipals. (When paid out...

...same footing as those geared toward long-term gains. High-yield bonds and real estate **investment** trusts, for example, become interesting asset classes.

More interesting perhaps are nontraditional strategies. Many strategies...

...high turnover or generate most of their returns as income. They are not appealing for **taxable** accounts when lower taxed alternatives are available, but they may be very appealing in a...CRT environment, however, because they often are available in limited partnerships that produce Unrelated Business **Taxable** Income (UBTI). UBTI can poison the tax advantage of the CRT. Therefore, CRTs must be...

...the problem of the undiversified or unappealing asset only by posing a range of new **investment** problems. Fortunately, the new problems are tractable with thoughtful application of established **investment** techniques.

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01343637 99-93033  
**Nuclear Decommissioning Trust Funds: Rethinking the approach**  
Korn, Donald H  
Public Utilities Fortnightly v134n21 PP: 26-31 Nov 15, 1996  
ISSN: 1078-5892 JRNL CODE: PUF  
WORD COUNT: 2713

...TEXT: may even suggest a more fundamental rethinking than the NRC contemplates.

Contemporary arrangements for trust- **investment** management seek a target rate of return. If the portfolio is risky, it can easily...

...the plant owner's initial investment or far less. If far greater, then a small initial **investment** will suffice to pay off the future decommissioning cost. But, if the value turns out...

...terms. Separately, a financial activity related to the trust fund(s) focuses on maximizing the **investment** returns to the NDT. Now that IRS regulations no longer restrict qualified NDTs to "Black..."

...high percentage of the funds in common stocks, especially for NDTs contemplating funds accumulation and **investment** over many years.

The presumption is that stocks represent prudent long-term holdings because they...although approved NDT contributions are tax deductible, the trust income, unlike pension trust income, is **taxable** to the (utility) owner-operator (unless invested in tax-exempt securities like municipal bonds). The...

...the tax laws, the asset allocation over time, and the market-timing skills of the **investment** managers.

Second, the potential arises for a shortfall of assets (a gap) should the plant...

...assets" (NDT), the gap can be better monitored and controlled. Techniques for option pricing and **portfolio optimization** should allow one to design an NDT portfolio that minimizes or eliminates shortfall risk.

The...

...The cost of insuring against a "gap" due to (a) a portfolio shortfall from risky **investment** strategy, or (b) a premature shutdown, can be formulated in terms of the value of...J. and G. S. Rothwell, editors, 1991.

7Bodie, Zvi: "The ABO, The PBO, and Pension **Investment** Policy," Nov. 1989 (paper prepared under Dept. of Labor Contract No. 1-9-P-8-0097); and "Shortfall Risk and Pension Fund **Investment** Policy," presented at the NYU Salomon Brothers Center and Rutgers GSM Center joint conference, The...

7/K/16 (Item 16 from file: 15)  
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01179755 98-29150

**Financial planners flock to asset management: Are we losing our bearings?**  
McCarthy, Ed

Journal of Financial Planning v9n1 PP: 38-42 Feb 1996

ISSN: 1040-3981 JRNL CODE: JFN

WORD COUNT: 2884

...ABSTRACT: standard of success in the mid-1980s, today's standard is the amount of clients' **investment** assets under management. For many financial planners the transition to asset management has been successful

...

...TEXT: standard of success in the mid-'80s, today's standard is the

amount of clients' **investment** assets under management. Many experienced planners acknowledge that they have not produced a written plan...

...as a general financial advisor. Instead, the client will judge service solely in terms of **investment** return and will leave if returns are not acceptable. Wait for the next bear market...existing clients while making enough to stay in business."

The client service aspect of offering **investment** management is an important motivation for some relative newcomers, too. Gayle Buff, CFP, of GB...

...start managing assets in 1993. "I found that clients had a real hard time implementing **investment** plans. Their anxiety and nervousness would get in the way of their following through on the planning work we had done. I started feeling uncomfortable about the **investment** advice I was giving because if the client wasn't implementing it as I suggested..."

...as a stand-alone service. "Our firm provides comprehensive financial planning and our retainer includes **investment** advice," she says. "We do not call ourselves asset managers; in fact, we frequently work..."

...widely available to the public at low or no cost, the planner's role in **investment** management process could become redundant. You already can see this movement taking shape. Fidelity Investments...

...T. Rowe Price's Variable Annuity Decision Guide and Analyzer to compare variable annuities with **taxable** mutual funds. If these services prove to be popular, easy-to-use **portfolio optimization** software and consultation services won't be far behind.

Bob Bollinger, CFP, of Bollinger Financial Advisory in Stillwater, Oklahoma, provides **investment** advice in his role as a Registered **Investment Adviser**, but he distinguishes that from asset management. "I sell mutual funds, and some of..."

...because of their asset management reporting schedules."

#### Who's Qualified?

There is another aspect to **investment** management that we shouldn't overlook: Are formal ...and management."

Jim Kirkland agrees on the critical role the planning process plays in successful **investment** management. "I will not work with someone outside of a planning relationship--I refuse to..."

...m still going to do all the fact finding before I help them develop an **investment** strategy and implement a portfolio."

Blankinship cautions those planners who want to drop financial planning...

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01119700 97-69094

The similar genetics of public and private real estate and the optimal

**long-horizon portfolio mix**

Geltner, David; Rodriguez, Joe; O Connor, Daniel  
Real Estate Finance v12n3 PP: 13-25 Fall 1995  
ISSN: 0748-318X JRNL CODE: RFN  
WORD COUNT: 6688

...ABSTRACT: pools and syndications, such as commingled funds or separate accounts managed by specialized real estate **investment** advisors. An alternative approach, only recently emerging into practice is to invest in publicly traded...

...TEXT: on your interest in the two species. This is analogous to the current real estate **investment** strategy debate.

Broadly speaking, two approaches are available to institutional investors seeking to invest in...

...pools and syndications, such as commingled funds or separate accounts managed by specialized real estate **investment** advisors. In this article we refer to this traditional approach as private real estate. An...

...controlling over \$70 billion worth of real estate, while only a small fraction of REIT **investment** is from pension funds.

**Why Should Pension Funds Care About Private and Public Real Estate?**

From the beginning of pension fund interest in real estate as an **investment** asset class back in the 1970s, a major motivation was the belief that real estate...

...the prices of commercial properties bubbling up too high in the mid-1980s (when much **investment** was made), and then subsequently crashing to levels below what seemed reasonable in the long run.(1) As a result of this experience with private real estate **investment**, many institutional investors began asking whether or not public real estate **investment** vehicles, such as REITs, might not be a better way to make their real estate **investment**.

But there are some key questions about the appropriateness of REITs as a vehicle for pension fund real estate **investment**, based on one of the primary original motivations of that **investment**.

\* Do REITs provide the desired diversification for the stock-and-bond-dominated portfolio?

As REITs are stocks, and trade in the public exchanges, wouldn't public real estate **investment** (in the form of REITs) tend to be much more positively correlated with the stock and bond markets (which are also public) than is the case for private real estate **investment**? Furthermore, while REIT share prices no doubt reflect greater informational efficiency than private property market...

...in the stock market reduce the desirability of REITs as a vehicle for real estate **investment** in institutional portfolios?

In this article we summarize a recent study that attempts to shed...

...2) This study features a careful treatment of the historical empirical data available on the **investment** risk and return performance of private and public real estate, so as to not misleadingly...

...Historical Record of Private and Public Real Estate

We base our analysis of the historical **investment** risk and return performance of private real estate on the NCREIF Property Index (NPI) and ...

...Index (EAI), while we use the NAREIT All-REIT Index (NAREIT) to represent the historical **investment** performance of public real estate.(3)

Both the NPI and EAI indexes are based on...as he overall average total return is concerned. Although the two types of real estate **investment** were generally parallel for much of the historical period covered in Exhibit 2, public real...

...in the early 1990s, to give public real estate the overall performance edge.

The historical **investment** performance of public and private real estate during the 1975-1993 period is summarized statistically...REITs' small size and the historical tax law restrictions, two factors that directly hampered institutional **investment** in REITs until 1993. These size and tax characteristics may have effectively constrained the pool...

...be noted that until 1986 there were important tax advantages in private real estate for **taxable** investors. As our historical return exhibits are calculated on a before-tax basis, this could...

...short-run systematic risk, or covariance with stocks and bonds, the main components of most **investment** portfolios. Under classical capital market equilibrium theories (such as the CAPM, for example), this would...

...differently, at least in the short run.(12)

We can gain additional insight into these **investment** risk and return issues through the perspective of modern portfolio theory. Suppose we expect the...

...and others, so-called Modern Portfolio Theory (MPT) has provided the basis for rational quantitative **investment** analysis and planning. The basic idea in MPT is to minimize the overall portfolio risk...should not imply that investors have such short horizons when they make portfolio policy and **investment** decisions. In fact, most institutional investors have a medium to long term **investment** horizon that would probably be better represented by a five-year period, for example, than...

...would seriously consider including private real estate in their portfolios must have a relatively long **investment** horizon.

The use of short-period return statistics to apply MPT to longer-horizon investors...4. (Exhibit 4 omitted) These statistics are the appropriate inputs for a five-year horizon **portfolio optimization** analysis based on MPT. The statistics in Exhibit 4 represent the mean, standard deviation, and...

...the five-year interval return frequency, and thus are the appropriate inputs for mean-variance **portfolio optimization** with a five-year **investment** horizon. In the case of the publicly traded asset classes, these correlations are the same...private and public real estate have

significant positions in the optimal portfolios.(17)

Implications for **Investment** Strategy

Let us now return to the primary question that motivated this study, namely, what...

...that the differences between public and private real estate can be important from a portfolio **investment** management perspective. Perhaps the single most important message to emerge from our analysis is that...

...the optimal overall portfolio of the typical pension fund.

2. Neither form of real estate **investment** is a perfect substitute for the other in the portfolio.

While the role of private...

...long run. The fact that both public and private real estate appear substantially in optimal **investment** portfolios, based on their historical performance statistics over an entire real estate cycle, suggests the...

...in Norwalk, Connecticut. The NAREIT Index is produced by the National Association of Real Estate **Investment** Trusts (NAREIT), in Washington, D.C.

4 See Geltner [1993]. Mathematically, the unsmoothing procedure works... behave more like those in the public market, and vice versa, as far as general **investment** performance characteristics are concerned.

13 While in this article we are focusing only on equity **investment** in real estate, a similar problem arises when addressing debt **investment** within the so-called "four quadrants" framework.

14 Note that we use real (inflation-adjusted...).

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01075202 97-24596

We need a fourth asset class: HEITs

Geltner, David M; Miller, Norman G; Snavely, Jean

Real Estate Finance v12n2 PP: 71-81 Summer 1995

ISSN: 0748-318X JRNL CODE: RFN

WORD COUNT: 6613

...ABSTRACT: an alternative approach for facilitating owner-occupied housing-equity hedging and trading: the Home Equity **Investment** Trust (HEIT). A HEIT is simply an equity partnership, like a joint venture, in which...

...TEXT: property.

Owner-occupied houses represent the single largest portion of many, if not most, homeowners' **investment** portfolios. This concentration of **investment** defies the diversification necessary for proper **investment** decisions advocated by modern portfolio theory. These homeowners expose a large portion of their personal...

...an alternative approach for facilitating owner-occupied housing-equity hedging and trading: the Home Equity **Investment** Trust (or HEIT). A HEIT is simply an equity partnership, like a joint venture, in...

#### ...Household Perspective

##### Hedging Homeowner Risk

Many households' home value represents the largest part of their **investment** portfolio. Other households anticipate that a home will account for the majority of their investments...

...many geographic areas, and involves all the specific risk and management burdens of direct, undiversified **investment** in "lumpy" real estate assets. Living in the house yourself represents a huge consumption decision ...than they otherwise could, by not having to provide as much of the initial equity **investment** or as large payment as typically required with a high loan-to-value ratio mortgage...

...side of the market.(8)

In addition, HEITs offer homeowners considerable hedging of home equity **investment** risk, as compared to the traditional mortgage, based on the unique market conditions in which...

#### ...a Vehicle for Trading Home Equity: The Institutional Investor Perspective

##### Diversification

Rigorous analysis of the **investment** performance characteristics of owner-occupied housing equity is finally possible thanks to the recent development...provides a strong argument in favor of owner-occupied housing equity as a potentially major **investment** asset class for institutional investors. Considering that more than \$4 trillion of capital is seeking...  
...capital product is potentially available to underlie and absorb significant capital inflow from the institutional **investment** community. If the **investment** flows can be broadly targeted, and not focused exclusively on a few trophy types of...is well-known, this tax policy allows homeowners to deduct mortgage interest payments from their **taxable** income. The mortgage interest deduction gives traditional mortgages an advantage relative to HEITs as a...

...deductible (as part of a broader policy shift that would remove any income tax on **investment** income). Although the current Congress is considering such tax reforms, the realism of such reforms...total return performance of owner-occupied housing equity is probably due to the barriers to **investment** and trading in this asset class. These superior returns should initially help stimulate the market...

...is less than that of T-bills.

14 T-bills are not included in the **portfolio optimization** because they are treated as the riskless asset. For purposes of computing the Sharpe ratios...

...firms, particularly those with a link to financial service firms, such as insurance companies or **investment** banks.

16 Obviously, lower HEIT ratios of total asset value may be possible, but  
the...Research, 8, 3 (1993).

Miles M., J. Roberts, D. Machi, and R. Hopkins. "Sizing the **Investment**  
Markets: A Look at the Major Components of Public and Private Markets."  
Real Estate Finance...

7/K/19 (Item 19 from file: 15)  
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00850112 94-99504

**Deregulation and the opportunities for commercial bank diversification**  
Wall, Larry D; Reichert, Alan K; Mohanty, Sunil  
Economic Review (Federal Reserve Bank of Atlanta) v78n5 PP: 1-25 Sep/Oct  
1993  
ISSN: 0732-1813 JRNL CODE: ECR  
WORD COUNT: 13137

...TEXT: suggests that banks may benefit from diversifying into the  
following industries: fire and casualty insurance, **investment** banking,  
land development, and savings and loan companies.

Litan (1985) used IRS data to examine...

...and brokers and property/casualty insurance underwriters were relatively  
low. They conclude that a small **investment** in a few such comparatively  
low-risk nonbank activities would actually reduce risk. Furthermore, a  
limited **investment** in high-risk security-related activities would not  
materially increase bank holding company risk.

John...

...Rosen and others (1989) focused on the portfolio effect of bank  
diversification into real estate **investment** over the period from 1980 to  
1985. They found that real estate **investment** trusts (REITs) had a higher  
mean return on assets, reported returns negatively correlated with bank...  
figure. The appendix identifies the types of firms that make up the various  
industries. A **portfolio optimization** software package entitled "Asset  
Allocation Package" (Release 1.1), written by Steve Gladin and Robert...in  
returns. However, the insurance agents, brokers, and service industry and  
the holding and other **investment** companies industries both showed higher  
returns on assets and lower coefficients of variation during the...

...1981-89 period: (1) securities, and commodity brokers and services, and  
(2) holding and other **investment** companies.(10)

Analyzing the stability of the various risk and return measures over the  
two...

...credit institutions, life insurance, insurance agents and brokers,  
lessors of mining and oil properties, regulated **investment** companies, and  
other holding and **investment** companies. Furthermore, a number of these  
industries reported earnings that were negatively correlated with banking  
...

...and their coefficients of variation increased, but in both cases their  
ranking improved. Only regulated **investment** companies and other holding

and **investment** companies had both a better average return on assets and lower coefficient of variation during...

...their returns on assets during the 1981-89 subperiod: condominium management and co-ops, regulated **investment** companies, and real estate **investment** trusts. Similarly, only three industries reduced their coefficients of variation of return on assets in the latter subperiod: commodity brokers/dealers, regulated **investment** companies, and real estate **investment** trusts. The rankings of mean return on assets and return on assets variability in the...

...only two clear patterns across both subperiods: In the broad category of other holding and **investment** companies, performance of the various industries improved relative to all other industries, and returns to...on assets. For example, the pairwise analysis may suggest that a bank holding company's **investment** in certain industries would reduce returns and increase risk. However, when multiple industries are combined...

...brokers and dealers; commodity brokers and dealers; life insurance; insurance agents, brokers, and servicers; regulated **investment** companies; real estate operators and lessors of buildings; and real estate subdividers and developers.(17...companies. The three main nonbank holding company activities in the portfolio are life insurance, regulated **investment** companies, and real estate subdividers and developers. The only industry that never enters the efficient...

...matrix, which shows a -0.88 correlation between real estate subdividers and developers and regulated **investment** companies.(19) The inclusion of real estate subdividers and developers in the efficient portfolio indicates ...

...26. The low return on assets may reflect parts of the tax code that allow **taxable** earnings to be significantly less than GAAP earnings. For example, excluding the interest on state...zero at higher levels of return. Commodity brokers, the life insurance industry, insurance agents, regulated **investment** trusts, and real estate subdividers and developers all enter into at least some of the...

...between 1981 and 1989 consisted of 95 percent bank holding company and 5 percent regulated **investment** companies. This portfolio had a coefficient of variation of 5.1 percent and a return...

...contained bank holding companies; commodity brokers/dealers; life insurance; insurance agents, brokers, and servicers; regulated **investment** companies; and subdividers and developers. This efficient portfolio had a marginally lower coefficient of variation...capital-to-assets ratio of 4 percent to 5 percent.

10. The holding and other **investment** company category includes regulated **investment** trusts (which includes mutual funds), real estate **investment** trusts, and small business **investment** trusts.

11. The set of possible portfolios with each industry includes a portfolio of 100 percent bank holding company assets. Thus, if a portfolio containing a 5 percent **investment** in the nonbank holding company industry has a coefficient of variation exceeding that of bank holding companies alone -- 34.4 percent, for example -- then the maximum **investment** allowed in that industry would be less than 5 percent. Note also that it is...

...at selected points. Thus, the finding that the risk-minimizing portfolio contains a 10 percent **investment** in an industry is consistent with the actual risk-minimizing point lying between 5 percent...

...the 5 percent level are lessors of mining and oil properties, commodity brokers/dealers, regulated **investment** companies, and real estate **investment** trusts. At the 10 percent level the four that are risk-minimizing are real estate...

...and lessors of buildings, lessors of railroad properties, security brokers/dealers, and other holding and **investment** companies.

13. Bank holding companies would generally be allowed to invest somewhat more than these...

...based on consideration of only a limited number of portfolio alternatives. For example, the maximum **investment** in security brokers/dealers would be the point at which the risk of the pairwise...

...operators and lessors of buildings, lessors of railroad properties, security brokers/dealers, and real estate **investment** trusts. The two that are less risky at the 90 percent level are regulated **investment** companies and other holding and **investment** companies.

15. The ten industries are independent banks; insurance agents, brokers, and service; real estate...

...mining and oil properties; lessors of railroad properties; security brokers/dealers; commodity brokers/dealers; regulated **investment** companies; real estate **investment** trusts; and other holding and **investment** companies.

16. Mutual savings banks and savings and loans would generally have to convert to...the lowest risk portfolio that contains predominately bank holding companies and includes only a minimal **investment** in regulated **investment** companies.

20. One note of caution should be considered in interpreting Table 6. Some of the industries in the table -- for example, insurance agents and regulated **investment** companies -- use proportionately far fewer of their own assets than bank holding companies do to...

...the total size of the firm.

#### REFERENCES

Benston, George J. The Separation of Commercial and **Investment** Banking: The Glass-Steagall Act Revisited and Reconsidered. New York: Oxford University Press, 1990.  
Benston...

...Myron L. Kwast, and David B. Humphrey. "New Banking Powers: A Portfolio Analysis of Bank **Investment** in Real Estate." Journal of Banking and Finance 13 (July 1989):355-66.

Stover, Roger...

...operational changes in the nonbank (and possibly bank) affiliates are almost inevitable. Banks' passive portfolio **investment** in nonbanking

activities is unlikely to generate significant synergies that will make an acquisition valuable...regulatory pressure and other considerations. For example, bank owners may not always gain from an **investment** in high-risk assets. Banks make long-term investments in firm-specific capital (such as ...

...Josef Lakonishok (1984) studied the formation of one-bank holding companies (OBHCs). OBHC activities, except **investment** banking, were not regulated prior to the passage of the 1970 Amendments to the Bank...

...is assessing the goals of bank owners and managers if they were to be permitted **investment** in riskier activities. Banks may use diversification as a method for increasing or decreasing risk...financial problems. the threat of these runs may be beneficial before a bank makes it **investment** decision in that it could discourage the bank holding company from following high-risk policies...establishments engaged in the purchase, sale, and brokerage of securities and those, generally known as **investment** bankers, that originate, underwrite, and distribute securities issues

\* Commodity contract brokers and dealers, security and...

...or future basis for their own account or the account of others or that provide **investment** advice regarding securities to companies and individuals on a contractual or fee basis, and so forth

#### HOLDING AND OTHER **INVESTMENT** COMPANIES (EXCLUDES BANK HOLDING COMPANIES)

\* Regulated **investment** trusts -- a wide range of firms such as open and closed-end **investment** funds, money market mutual funds, unit **investment** trusts. and so forth

\* Real estate **investment** trusts -- firms engaged in closed-end real estate investments or related mortgage assets that meet the requirements of the amended Real Estate **Investment** Act of 1960, such as mortgage **investment** trusts, mortgage and realty trusts, and real estate **investment** trusts

\* Small business **investment** trusts

Wall is the research officer in charge of the financial section of the Atlanta...

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00678611 93-27832  
**Pension World's 1993 software product directory**  
Katinsky, Barbara  
Pension World v29n3 PP: 27-52 Mar 1993  
ISSN: 0098-1753 JRNL CODE: PWN  
WORD COUNT: 16122

...TEXT: Benefit Plans, Defined Contribution Plans, Discrimination Testing, Document Preparation, Employee Benefit Statements, Flexible Benefit Plans, **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projection, Section 415 Testing/Processing, Social

Security Calculation...

...or memo post; parameter driven plan control file; report writer and screen writer capabilities; unlimited **investment** options; 32 separate money types. Operating requirements: Full processing; participating processing; timesharing; operates on client...798-4469; FAX: (407) 843-7399

Product name: PIMS (Portfolio Information Management System). Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: A multi-user software system designed...

...Features: Administers DC plans, 401(k) plans, profit sharing and ESOP. 99 contribution accounts, 999 **investment** accounts, discrimination tests, 5500 worksheet, dollars or shares, employee statements, word processor, and custom report...

...Performs accounting and financial reporting for up to 250 participant defined contribution plans with multiple **investment** option choices. Includes income allocation, discrimination testing, updates of balances, and individual financial statements. Operating...

...post; on demand processing capabilities, parameter driven plan control file, ad-hoc report writer; unlimited **investment** funds and money types. Operating requirements: Full processing; participating processing; timesharing; operates on client's...New York, NY 10007 Contact: Don Wiss, (212) 587-0097

Product name: BondCalc. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections, Fixed Income Security Analysis and Valuation. Features...  
...data maintenance; benefit calculations; and communication to participants. Calculations include Social Security; optional benefit forms; **taxable** portions of benefits. Operating requirements: Full processing; operates on client's computer-minimum requirements-IBM...  
...908) 852-1694; FAX: (908) 852-0885

Product name: LaPorte Asset Allocation System. Function(s): **Investment** Performance Measurement Portfolio Management/Asset Management/Asset Projections, Asset Allocation. Features: Performance data provided on... Sls. Mgr., (800) 833-1394; FAX: (301) 590-1365

Product name: Cadence Consultant. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: Provides performance measurement and universe comparison...

...540K available memory; other-DOS 3.2 or later.

Product name: Comparative Statistics. Function(s): **Investment** Performance Measurement. Features: Provides performance and risk statistical data on over 3000 bank and insurance company pooled funds, mutual funds, **investment** advisors and market indices. User generates custom reports with report-writer. Operating requirements: Timesharing; operates on client's computer-IBM compatible; other-Windows.

Product name: Performance Measurement Function(s): **Investment** Performance Measurement Features: Provides timely and accurate reporting on rates of

return, risk statistics and...

...available memory; other-DOS version 2.0 or later.

Product name: Portfolio Analysis. Function(s): **Investment** Performance Measurement. Features: Determine the characteristics of your portfolio holdings. Identify which securities contributed or detracted most from performance. Examine the **investment** style of portfolio managers. Operating requirements: Full processing; participating processing; timesharing.

CALLAN ASSOCIATES, INC. 71...

...415) 974-5060; FAX: (415) 512-0524

Product name: Performance Evaluation Program (PEP). Function(s): **Investment** Performance Measurement. Features: Easy-to-use tool for evaluating risk/return performance of asset classes...

...Benefit Plan Provisions, Defined Benefit Plans, Defined Contribution Plans, Employee Benefit Statements, Flexible Benefit Plans, **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections, Welfare Benefit Plans. Features: CAS Voice provides...

...Benefit Plan Provisions, Defined Benefit Plans, Defined Contribution Plans, Employee Benefit Statements, Flexible Benefit Plans, **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections, Welfare Benefit Plans. Features: The Cascade Call...

...6181; FAX: (617) 542-1208

Product name: Global EPVS (Expanded Portfolio Valuation System). Function(s): **Investment** Performance Measurements, Portfolio Management/Asset Management/Asset Projections. Features: Global EPVS is a real-time, multi-currency portfolio management system that consists of integrated modules for automation of the entire **investment** management process. Modules: recordkeeping, performance, trade and order. Operating requirements: Full processing; participating processing; timesharing; operates on clients computer Product name: Global Precision Performance System Function(s): **Investment** Performance Measurement. Portfolio Management/Asset Management/Asset Projections. Features: Global Precision Performance System derives, stores...24 hours a day, 7 days a week, from any touch-tone phone. Handles enrollments, **investment** selection, loans. Call 1-800-245-DEMO. Operating requirements: Full processing; participating processing; operates on...

...Value Analysis, Claims Processing, Defined Benefit Plans, Defined Contribution Plans, Discrimination Testing, Employee Benefit Statements, **Investment** Performance Measurement, Sec. 415 Testing/Processing, Top-Heavy Analysis, New 401(a) and 410(b...)

...Reporter, Plan Accountant, and Client Manager Systems). Function(s): Defined Benefit Plans, Defined Contribution Plans, **Investment** Performance Measurement. Portfolio Management/Asset Management/Asset Projections, Government Reporting, Trust Accounting, and Plan Management...Marie Koczela, Info. Svcs., (301) 585-7121

Product name: Bond Brain Bond Calculator. Function(s): **Investment**

Performance Measurement, Portfolio Management/Asset Management/Asset Projections, Fixed Income Analysis. Features: Pocket-sized bond...  
...for zeros. Operating requirements: Full processing.

Product name: Master Brain II Bond Calculator. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections, Fixed Income Analysis. Features: Portable (8"X3...)

...feature. Operating requirements: Full processing.

Product name: Master Brain Plus Bond Portfolio System. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections, Fixed Income Analysis. Features: Fixed income portfolio...

...XT, AT or compatibles.

Product name: Master Brain Pop-Up Bond Calculator Software. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections, Fixed Income Analysis. Features: Memory-resident fixed...

...401(k)/401(m) tests, annualized projections; excess corrections; data entry; payroll file import; contribution **investment** allocation; match calculation; data validation; restrictions (suspension, number events); hard copy reports. Operating requirements: Operates...Pres., (310) 301-3988; FAX: (310) 301-9945

Product name: Asset Optimization Model. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: The AOM provides **portfolio optimization**, performance analysis and comparative evaluation capabilities using Microsoft Windows. It includes a complete historical database...

...simulation capabilities. Calculates pension costs under most actuarial methods, OBRA and FASB 87 under alternative **investment** policy. Operating requirements: Operates on client's computer-IBM or compatible with Microsoft Windows; other...

...Asset Projections, Endowment Foundation Plans. Features: The EFM provides integrated cash flow forecasting and inflation/ **investment** simulation capabilities for endowments, foundations and trusts. Results show the expected volatility of fund spending and asset values under alternative spending/ **investment** policies. Operating requirements: Operates on client's computer-IBM or compatible computer; other-Microsoft Windows...

...Benefit Illustrations, Database of Benefit Plan Provisions, Defined Contribution Plans, Discrimination Testing. Employee Benefit Statements, **Investment** Performance Measurement Sec. 415 Testing/Processing, Top-Heavy Analysis. Features: A comprehensive and flexible system...Processing, COBRA, Defined Contribution Plans, Discrimination Testing, Document Preparation, Employee Benefit Statements, Flexible Benefit Plans, **Investment** Performance Measurement, Sec. 415 Testing/Processing, 401(k) Loan Program. Features: Multiple **investment** plans/options/fund sources; distributions (loan program, termination); ABP/ACP discrimination testing, contribution/allocation reports...

...2, MS/Windows, UNIX X Windows, VMS, AIX.

Product name: KOA BMASS System. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections, General Accounting. Features: GL/subsidiary ledgers; trial...

...Function(s): Actuarial Valuation, Claims Processing, COBRA, Defined Benefit Plans, Document Preparation, Employee Benefit Statements, **Investment** Performance Measurement, Social Security Calculations, Top-Heavy Analysis. Features: Multiple plan administration, various funding methods...

...Pension Payment. Features: An on-line, real time product supporting trust management requirements for administration. **investment** management, and operations It offers automated links between participant recordkeeping, pension payments, and trust accounting...

...Pres., (919) 759-0600; FAX: (919) 759-0636

Product name: Macro\*World InvestorTM. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections, Forecasting and Determining Impact from Economic Trends. Features: Combines **investment** analysis and economic forecasting. Results interpreted by system and summarized into reports. Makes forecasts, projects...

...443-2575; FAX: (214) 528-6958

Product name: Portfolio Analysis & Reporting Systems (PARS). Function(s): **Investment** Performance Measurement, Portfolio Mgt./Asset Mgt./Asset Projections. Features: A comprehensive yet user-friendly, single-system approach to complete automation of the real estate **investment** and lending process, including portfolio management, analysis, valuation, research, acquisition, disposition and client relations.

WILLIAM...or Karla Schwartz, (800) 662-4874; FAX: (919) 549-9770

Product name: M-Search(R) **Investment** Manager Database System. Function(s): **Investment** Performance Measurement, **Investment** Manager Search and Selection. Features: M-Search(R) is a PC-based program tracking over...

...clock speed 10mHz, 40MB HD.

Product name: M-Watch(R) Performance Reporting System. Function(s): **Investment** Performance Measurement, **Investment** Manager Search and Selection. Features: M-Watch(R) is a PC-based performance reporting system ...

...s computer-IBM PC or compatible, 640K DOS memory, Clock Speed 10mHz, 40MB HD.

MONTGOMERY **INVESTMENT** TECHNOLOGY P.O. Box 508 Wayne, PA 19087 Contact: George Montgomery, Pres., (215) 688-2508...

...215) 688-5084

Product name: Options XL, Bonds XL, Futures XL, Exotics XL. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: Spreadsheet add-ins for options, fixed...

...FAX: (612) 829-3167

Product name: Trustware Asset Management Systems Function(s): Employee Benefit Statements, **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: In-house, on-line, real time solutions for any size institution offering **investment** analytics; sophisticated securities processing; comprehensive reporting with report writer; automated cash management; fee and remittance...

...Product name: Ultrust Integrated Asset Management System Function(s): Employee Benefit Statements, Flexible Benefit Plans, **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: In-house, on-line, real time...

...driven solution for today's most sophisticated asset managers Features multi-currency accounting: fully integrated **investment** analytics; sophisticated securities processing; double-entry, accrual and trade date accounting. Operating requirements: Operates on...

...Participant Recordkeeping System. Function(s): Defined Contribution Plans, Discrimination Testing, Document Preparation, Employee Benefit Statements, **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections, Sec. 415 Testing/Processing, Social Security Calculations...

...s Institutional MarketPlace On-Disk. Function(s): Financial Services Marketing. Features: Database marketing system for **investment** managers and consultants, consisting of three inter-related databases: Nelson's Plan Sponsor Database, Nelson's Pension Fund Consultant Database. Nelsons **Investment** Manager Database. Operating requirements: Operates on client's computer-IBM compatible PC 386 or higher...PC or MS-DOS 3.3, floppy disk drive.

Product name: Trust Accounting. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: Decrease the amount of time that...

...multi-media employee communications program for 401(k) plans. It offers financial planning and modeling, **investment** education, asset allocation and information on plan rules and provisions. Operating requirements: Operates on client...

...Benefit Illustrations, COBRA, Defined Benefit Plans, Defined Contribution Plans, Employee Benefit Statements, Flexible Benefit Plans, **Investment** Performance Measurement, Top-Heavy Analysis, Welfare Benefit Plans, Absence Education, Training. Features: HR/InfoNet delivers...

...Svcs., (609) 987-2400; FAX: (609) 987-9320

Product name: PAM For Mortgages. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: PAM For Mortgages handles complex commercial...

...computer-any IBM compatible PC; other-LAN.

Product name: PAM For Mutual Funds. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: PAM For Mutual Funds provides management...

...s computer-any IBM compatible PC; other-LAN.

Product name: PAM For Securities. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections.

Features: PAM For Securities meets the needs of the entire **investment** organization-portfolio management, analysis, operations, and accounting. Handles the latest regulatory reporting requirements. Tracks CMOs...

...s computer-any IBM compatible PC; other-LAN.

Product name: PAM For Trading. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections.

Features: PAM For Trading provides a complete...Loan Management. Features: PC-based, administration system that accommodates up to 9 contribution sources, 20 **investment** funds. Accounting for trusts, mutual funds, company stock, plus loan management. Calculates distributions, creates retiree...

...242-8897

Product name: CAMRATM (The Complete Asset Management, Reporting and Accounting System). Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections, Securities Accounting. Features: A fully integrated, real...

...Operating requirements: Operates on client's computer-over 75 platforms.

Product name: PICSTM (The Private **Investment** Capture System).

Function(s): Private Placement Investments. Features: System has the ability to capture and...Flexible Benefit Plans, Portfolio Management/Asset Management/Asset Projections. Features: Mean-variance and downside risk **portfolio optimization** system. Works with symmetrical and asymmetrical return distributions. Interactive graphical analysis capabilities. Forward-looking **investment** manage forecast provide semiannual optimization input. Operating requirements: Operates on client's computer-IBM PC...

...client's computer-IBM PC & compatibles-DOS.

Product name: The Performance Analysis Expert. Function(s): **Investment** Performance Measurement. Features: Historical monthly returns on 140 domestic and international indices. Full set of...

...Asset Projections. Features: Assists 401(k) plan participants and others planning for retirement. Determine optimal **investment** strategies from available **investment** options to achieve specified retirement goals. Utilizes personal financial profile of each individual. Operating requirements: COMPUSTAT PC Plus/S&P Stock Reports. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: Unlimited report generation and screening across...

...415 Testing/Processing, Top-Heavy Analysis. Tax Reporting. Features: Networking, system generated fund transfers, 10 **investment** funds, 10 types of contributions, automatic system calculation of eligibility and vesting, accumulate up to...

...defined contribution plans: 401(k), money purchase and profit sharing. Determines eligibility, contributions, forfeitures, allocates **investment** gain/loss. Up to 32 accounts per participant can be defined. Operating requirements: Operates on...

...TelePlan. Function(s): Defined Benefit Plans, Defined Contribution Plans, Employee Benefit Statements, Flexible Benefit Plans, **Investment** Performance Measurement Features: TelePlan is a voice response system designed to efficiently communicate routine define...

...TeleFlex. Function(s): Defined Benefit Plans, Defined Contribution Plans, Employee Benefit Statements, Flexible Benefit Plans, **Investment** Performance Measurement Features: TeleFlex is a voice response system designed to accept flexible benefits selections...Sls. Mgr., (617) 345-2747; FAX: (617) 261-5460

Product name: PORTIA(R). Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: Real-time, multi-user system; supports...

...Systems; Index & Structured Portfolio Management; Vestar PC-Based Portfolio Management System; Asset Allocation. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: Comprehensive security analysis; portfolio analysis, index...2348

Product name: P.R.O.S.E. Function(s): Benefit Value Analysis, Document Preparation, **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: Integration of commercially available data with...

...Christine Van Leeuwen, Mktg. Svcs., (503) 620-9800; (800) 776-1046

Product name: AIM (Asset **Investment** Management). Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: AIM combines asset allocation, performance comparison...

...Databases include mutual fund, manager returns, index returns, economic indicators.

Product name: WyCASH+. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections. Features: WyCASH+ is a real-time, portfolio...

...215) 254-0300; FAX: (215) 254-0308

Product name: The XRT Treasury Workstation. Function(s): **Investment** Performance Measurement, Portfolio Management/Asset Management/Asset Projections, Cash Management. Features: Modular treasury management system ...Inc. TPA Corp. Talx Corp. Tesseract Corp. The Preferred Software Group William M. Mercer, Inc.

#### **INVESTMENT PERFORMANCE MEASUREMENT**

APAM BondCalc Corporation Burlington Hall Asset Management, Inc. Callan Associates, Inc. Cascade Technologies...

...Systems, Inc. KDA Associates Macro\*World Research Corp. Melson & Associates, Inc. Mobius Group, Inc. Montgomery **Investment** Technology National Computer Systems National Deferred Compensation, Inc. Pentabs, a division of Corbel & Co. Princeton...

...M&I Data Services, Inc. Macro\*World Research Corp. MarketBase, Inc.

Melson & Associates, Inc. Montgomery Investment Technology National Computer Systems National Deferred Compensation, Inc. Pentabs, a division of Corbel & Co. Princeton...Payment)

Macro\*World Research Corp.--(Forecasting and Determining Impact from Economic Trends)

Mobius Group, Inc.--( Investment Manager Search and Selection: Investment Manager Search and Selection)

National Computer Systems--(Benefit Payment Systems)

Nelson Publications--(Financial Services Marketing...)

**7/K/21 (Item 1 from file: 275)**

DIALOG(R) File 275:Gale Group Computer DB(TM)  
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02253636 SUPPLIER NUMBER: 53412699 (USE FORMAT 7 OR 9 FOR FULL TEXT)

**Buy Side Plays Catch Up.(risk management systems)(Industry Trend or Event)**

DUFFY, MAUREEN NEVIN

Wall Street & Technology, 16, 12, `(1)

Dec, 1998

ISSN: 1060-989X LANGUAGE: English RECORD TYPE: Fulltext

WORD COUNT: 1490 LINE COUNT: 00221

... qualified according to the kind of buy side business the company is in, for example, **investment** managers, corporate treasury areas and pension funds, says Debbie Williams, co-founder and a research...

Riskmaps  
(formerly NeoFARM) NeoVision  
Hypersystems Inc.

The Yield Book Salomon Brothers

Actual product name Thomson Investment

to be announced Software, a division of  
Axiom Thomson Financial  
Wilshire Quantum  
Series

Atlas Wilshire...

...system for institutional investors

- \* Portfolio analyses
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- \* Compliance monitoring and reporting
- \* Performance attribution
- \* Portfolio optimization
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- \* Asset liability management

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funds,  
corporate clients, money managers,  
asset  
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**banks.**  
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analytical tools,  
position keeping, market risk, some  
counterparty  
and trader...  
...announced  
Track exposures by portfolio,  
settlement-market,  
country and counterparty risks  
Specialized support for  
portfolios  
\* Scenario simulation, optimization  
and  
performance attribution  
\* Analytics: cashflow, OAS models fo  
r  
mortgage  
pass-throughs...  
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7/K/22 (Item 2 from file: 275)  
DIALOG(R) File 275:Gale Group Computer DB(TM)  
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01671574 SUPPLIER NUMBER: 15075670 (USE FORMAT 7 OR 9 FOR FULL TEXT)  
**Specialized financial applications. (Buyers Guide)**  
Wall Street & Technology, v11, n8, p132(12)  
Annual, 1994  
DOCUMENT TYPE: Buyers Guide ISSN: 1060-989X LANGUAGE: ENGLISH  
RECORD TYPE: FULLTEXT; ABSTRACT  
WORD COUNT: 12557 LINE COUNT: 01128

... Contact Jerald Jackrel, Pres.; 310/478-4015, Fax: 310/457-4352, See  
ad p. 47  
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classes. Features include Markowitz and downside risk optimization and  
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...Contact Jerald Jackrel, Pres.; 310/478-4015, Fax: 310/457-4352, See ad p. 47

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...modular treasury system providing bank connections for balance retrieval and funds transfer, cash position, forecasting, **investment** and debt issuing/tracking account. Analysis, and G/L interface.

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Marietta, GA 30068; Contact...

...T, DG Avion.

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...Fax: 312/443-1279

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...DESCRIPTORS: Foreign **Investment** ;

7/K/23 (Item 3 from file: 275)  
DIALOG(R) File 275:Gale Group Computer DB(TM)

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01671573      SUPPLIER NUMBER: 15074172      (USE FORMAT 7 OR 9 FOR FULL TEXT)

**Equity research/portfolio analytics support. (Buyers Guide)**

Wall Street & Technology, v11, n8, p123(8)

Annual, 1994

DOCUMENT TYPE: Buyers Guide      ISSN: 1060-989X      LANGUAGE: ENGLISH

RECORD TYPE: FULLTEXT; ABSTRACT

WORD COUNT: 7876      LINE COUNT: 00716

...ABSTRACT: as optimization and APT models, portfolio performance measurement and evaluation, stock screening and equity research.

**Investment** services that predict stock prices include on-line newsletters, quantitative models and specific research services.

... V.P. Sales; 201/635-0510, Fax: 201/635-8330

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...by asset and fund managers, global custodians and institutional investors for transaction record-keeping and **investment** decision support, with a reliable accounting capability and AIMR-compliant performance measurement securities databases, multi...

...Global Fund

Provides fund management and accounting for all foreign and domestic security types including **taxable** and tax-exempt bonds, short term and variable rate instruments, mortgage and asset backed securities...an MS Windows compatible product that may examine portfolio data access through

the PC desktop. **Investment** managers may examine portfolio structure, transaction details, cash projections, performance information, analytics and more. A zoom facility can be used to "drill down" into huge volumes of **investment** data. Query is well suited for all **investment** management styles and instrument types including domestic and foreign equities, fixed income, money markets, mortgage...

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EuCORR...

...587-6808

ISA Performance Measurement

IBM Mainframe, MVS

Performs attribution analysis. Measures performance by managers, **investment**, countries, segments, and classes. Can segregate fees, taxes, and omitted assets. Comprehensive database for comparative...

...Contact Jerald Jackrel, Pres.; 310/478-4015, Fax: 310/457-4352, See ad p. 47

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The mature, in-house, multi-user...

...effective basis.

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Shaw Data Services, Inc. A Sungard Co., 122...

...for total portfolio and user-defined sectors, industries, currencies, & asset classes. Attributes performance to various **investment** decisions. Lets you define how a portfolio's components are combined & at what level returns...cutting edge in portable client/server technology, open architecture design, and comprehensive functionality.

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SunGard **Investment** Systems Inc. 11 Salt Creek Ln., Hinsdale, IL 60521; Contact David Foster; 708/920-3100...that best fit individual goals. Offers 207 fundamental, technical & forecasting indicators to define search. Includes **investment** analysis software (Telescan Analyzer) and proprietary database.

Value Line, Inc. 711 3rd Ave., New York...

...the PC and the software is "open-ended" allowing import or export of data.

Zacks **Investment** Research 155 N. Wacker Dr., Ste. 300, Chicago, IL 60606; Contact Len Zacks; 312/630...

...a price momentum figure. Provides "normalized" earnings, ratios and is known and respected throughout the **investment** community for providing timely, accurate data. Back-testing software and ...past success, riskiness and market liquidity. These factors can be used in database screening and **portfolio optimization**.

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Bridge/DEC Terminals/PC Emulator Software Spectrum **Investment**

Company Ownership reports from CDA/ **Investment** Technologies contain timely and comprehensive information on common stock holdings of 850 US and 550 European **investment** companies. CDA updates the research on Bridge monthly.

Corporate Profile

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...adds new insights into measuring corporate performance by employing the economic cash flow return on **investment**, a unique cash flow performance measure, adjusted for book accounting distortions such as inflation, depression...worldwide, equity-oriented issues in over 5,000 North American and European portfolios. Identified institutional **investment** firms managing a selected security, along with total number of shares held, their value position...

...e., S&P 500. Actuaries, EAFE, Nikkei 225, 300 and FTSE 100) are featured.

Zacks **Investment** Research

Bridge/DEC Terminals/PC Emulator Software "Real-Time" Earnings Surprise compares a company's...

**7/K/24 (Item 4 from file: 275)**

DIALOG(R) File 275:Gale Group Computer DB(TM)

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01320538 SUPPLIER NUMBER: 07931076 (USE FORMAT 7 OR 9 FOR FULL TEXT)

**Software. (1990 Buyer's Guide Issue) (buyers guide)**

Wall Street Computer Review, v7, n2, p27(95)

Nov, 1989

DOCUMENT TYPE: buyers guide ISSN: 0738-4343 LANGUAGE: ENGLISH

RECORD TYPE: FULLTEXT; ABSTRACT

WORD COUNT: 56121 LINE COUNT: 04923

...ABSTRACT: management, decision support and project management, equities analysis, fixed income analysis, foreign exchange, graphics, insurance, **investment** analysis, micro-to-mainframe links, mortgage backed securities pricing, mutual fund pricing, options and futures...

...management for brokers, portfolio management for money managers, program trading, prospecting for brokers, real estate **investment** analysis, sales support, spreadsheets, statistical analysis, stock screening, stock transfer and clearing services, tax planning...

... Decstations ULTRIX) IBM (370VM, RT AIX, PS2 MOD 80 AIX)

Database software designed to manage **investment** time series data. Available interfaces include FORTRAN, C, and an analytical 4GL for graphs, reports...division of Lynch, Jones & Ryan and Ford Investor Services, to deliver their equity databases to **investment** managers.

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An asset allocation system for bond portfolio **optimization** and risk/return analysis.

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...Services, Inc., 5335 SW Meadows Road, Suite 200, Lake Oswego, OR 97035  
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A fully integrated PC-driven portfolio management...

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Princeton Financial Systems, Inc., 5 Independence...

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Tech Hackers, 515 Broadway, 3rd Fl., New York, NY 10012; Contact Niels Lauritzen; 212/941-7330...

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...800/554-1193, FAX: 404/587-6808 See Advertisement Page 83

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The most comprehensive, in-house, multi...

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North American Software, Inc., 4140 Crossgate Dr., Cincinnati...

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Wyatt Software Services...

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...PORTVUE IBM

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The most comprehensive, in-house multi...data base of user's clientele to allow access to information on their investment, insurance, and commissions.

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Business Wire, pNA  
Sept 23, 2005

Language: English Record Type: Fulltext  
Document Type: Newswire; Trade  
Word Count: 772

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...annuity's risks, charges, limitations and expenses, as well as the risks, charges, expenses and **investment** objectives of the underlying **investment** options. This and other information about Pacific Life is in the prospectuses available from your...

...investing.

Variable annuities are long-term investments designed for retirement. The value of the variable **investment** options will fluctuate and when redeemed, may be worth more or less than the original cost. Withdrawals and other distributions of **taxable** amounts will be subject to ordinary income tax, and if taken prior to age 59...

...Life provides life insurance products, individual annuities, and mutual funds, and offers a variety of **investment** products and services to individuals, businesses and pension plans. Pacific Life counts more than half...

7/K/26 (Item 2 from file: 621)

DIALOG(R) File 621:Gale Group New Prod.Annou.(R)  
(c) 2005 The Gale Group. All rts. reserv.

04335940 Supplier Number: 135059802 (USE FORMAT 7 FOR FULLTEXT)

**ECC Capital Corporation Reports Second Quarter 2005 Results.**

PR Newswire, pNA

August 12, 2005

Language: English Record Type: Fulltext

Document Type: Newswire; Trade

Word Count: 3059

(USE FORMAT 7 FOR FULLTEXT)

TEXT:

IRVINE, Calif., Aug. 12 /PRNewswire-FirstCall/ -- ECC Capital Corporation, a mortgage finance real estate **investment** trust (REIT) that originates and invests in residential mortgage loans, today announced financial results for...

... 13.5 million associated with the gain on sale of loans from the Company's **taxable** REIT subsidiary, Encore Credit Corp., to its parent, ECC Capital.

"Key second quarter achievements included...

...39%	4.23%		
	Net interest rate spread	2.86%	2.84%
	WAC - Loans held for <b>investment</b>	7.28%	7.29%
	Cost of funds	3.63%	3.34%
	Net interest rate spread...		

...represents management's best estimate of losses incurred within the portfolio of loans held for **investment**. The loan portfolio is unseasoned and ECC Capital has experienced no actual losses or significant...

...2005. At June 30, 2005, total delinquencies within the Company's loan portfolio held for **investment** were 1.4% and serious delinquencies (greater than 90 days) were 0.3%. Nevertheless, given...

...minimal in relation to production as the Company continues to accumulate mortgage assets in its **taxable** REIT subsidiary that allow it to build a greater pool of assets for REIT **portfolio optimization** while earning spread income prior to selling loans that are not selected for the REIT...

...ECC Capital Corporation

ECC Capital Corporation, headquartered in Irvine, Calif., is a mortgage real estate **investment** trust (REIT) that originates and invests in residential mortgage loans. Through its wholesale and retail...

...some time in the future. In addition, ECC Capital accounts for the majority of its **investment** in residual interests in securitizations as a trading asset and the unrealized gains and losses...

...Mortgage loans held for sale, net	1,922,322	911,784
Mortgage loans held for <b>investment</b> ,		
net	3,110,534	-
Accrued mortgage loan interest	27,889	1,581
Residual interests in...		
...31,696	4,970	43,864
10,068		
Provision for loan losses - Loans held for <b>investment</b>		
3,510	-	6,010
Net interest income, after provision for loan losses	28,186	4...

7/K/27 (Item 3 from file: 621)

DIALOG(R) File 621:Gale Group New Prod.Annou.(R)  
(c) 2005 The Gale Group. All rts. reserv.

04191189 Supplier Number: 132391365 (USE FORMAT 7 FOR FULLTEXT)  
**WPS Resources Corporation Reports Earnings for Third Quarter Of 2004.**  
PR Newswire, pNA  
Oct 28, 2004  
Language: English Record Type: Fulltext  
Document Type: Newswire; Trade  
Word Count: 7938

... 129.1 million, largely due to a \$76 million increase resulting from higher volumes from **portfolio optimization** strategies utilized to maximize the value of WPS Power Development's merchant generation fleet and ...

...The higher wholesale electric margin was driven by a \$10.4 million increase from the **portfolio optimization** strategies discussed above and a \$1.5 million increase related to other structured wholesale electric...

...third quarters of 2004 (a similar adjustment was not required in 2003). Based upon projected **taxable** income for the remainder of the year, we expect to recognize the remaining \$5.4...

...a public offering in November 2003. Additional shares have also been issued under the Stock **Investment** Plan and certain stock-based employee benefit plans.

Third Quarter Results

The following tables depict...12.8 million, primarily due to a \$46 million increase resulting from higher volumes from **portfolio optimization** strategies (discussed above) utilized to maximize the value of WPS Power Development's merchant generation...

...higher wholesale electric margin was driven by a \$7.7 million increase resulting from the **portfolio optimization** strategies discussed above. Partially offsetting these increases was a \$5.4 million decrease in margin  
...

...a public offering in November 2003. Additional shares have also been issued under the Stock **Investment** Plan and certain stock-based employee benefit plans.

ACCOUNTING MATTERS

Cumulative Effect of Changes in...

...regulatory initiatives regarding deregulation and

restructuring of the utility industry which could affect costs and **investment recovery**

-- State and federal rate regulation, including the inability to obtain necessary regulatory approvals in...

...debt	868.8	871.9
Long-term deferred income taxes	88.2	78.8
Deferred <b>investment</b>		
tax credits	16.5	17.7
Regulatory liabilities	286.5	304.4
Environmental remediation liabilities...		

7/K/28     (**Item 1 from file: 16**)  
DIALOG(R) File 16:Gale Group PROMT(R)  
(c) 2005 The Gale Group. All rts. reserv.

12563356     Supplier Number: 136574458   (USE FORMAT 7 FOR FULLTEXT)

**Pacific Life Makes Variable Annuity Benefits Even Better.**

Business Wire, pNA

Sept 23, 2005

Language: English   Record Type: Fulltext

Document Type: Newswire; Trade

Word Count: 772

... year of what they put into their annuity, and stay invested in a Pacific Life **Portfolio Optimization** asset allocation model. In addition, if withdrawals begin after age 65, the annual 5 percent...

...that Pacific Life variable annuities provide. These include guaranteed death benefits, multiple money managers and **investment options**. Consult a prospectus for more information about **investment risks, surrender options**

and expenses.

Pacific Life Insurance Company is licensed to issue individual life  
...

...annuity's risks, charges, limitations and expenses, as well as the risks, charges, expenses and **investment** objectives of the underlying **investment** options. This and other information about Pacific Life is in the prospectuses available from your...

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Variable annuities are long-term investments designed for retirement. The value of the variable **investment** options will fluctuate and when redeemed, may be worth more or less than the original cost. Withdrawals and other distributions of **taxable** amounts will be subject to ordinary income tax, and if taken prior to age 59...

...Life provides life insurance products, individual annuities, and mutual funds, and offers a variety of **investment** products and services to individuals, businesses and pension plans. Pacific Life counts more than half...

7/K/29 (Item 2 from file: 16)

DIALOG(R) File 16:Gale Group PROMT(R)  
(c) 2005 The Gale Group. All rts. reserv.

12457079 Supplier Number: 135059802 (USE FORMAT 7 FOR FULLTEXT)  
**ECC Capital Corporation Reports Second Quarter 2005 Results.**

PR Newswire, pNA

August 12, 2005

Language: English Record Type: Fulltext

Document Type: Newswire; Trade

Word Count: 3059

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TEXT:

IRVINE, Calif., Aug. 12 /PRNewswire-FirstCall/ -- ECC Capital Corporation, a mortgage finance real estate **investment** trust (REIT) that originates and invests in residential mortgage loans, today announced financial results for...

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Provision for loan losses - Loans held for <b>investment</b>		
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7/K/30        (Item 3 from file: 16)  
DIALOG(R) File 16:Gale Group PROMT(R)  
(c) 2005 The Gale Group. All rts. reserv.

12372114      Supplier Number: 132391365 (USE FORMAT 7 FOR FULLTEXT)  
**WPS Resources Corporation Reports Earnings for Third Quarter Of 2004.**  
PR Newswire, pNA  
Oct 28, 2004  
Language: English   Record Type: Fulltext  
Document Type: Newswire; Trade  
Word Count: 7938

... 129.1 million, largely due to a \$76 million increase resulting from higher volumes from **portfolio optimization** strategies utilized to maximize the value of WPS Power Development's merchant generation fleet and ...

...The higher wholesale electric margin was driven by a \$10.4 million increase from the **portfolio optimization** strategies discussed above and a \$1.5 million increase related to other structured wholesale electric...

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ACCOUNTING MATTERS

Cumulative Effect of Changes in...

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restructuring of the utility industry which could affect costs and **investment recovery**

-- State and federal rate regulation, including the inability to obtain necessary regulatory approvals in...

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Deferred <b>investment</b>		
tax credits	16.5	17.7
Regulatory liabilities	286.5	304.4
Environmental remediation liabilities...		

7/K/31        (Item 4 from file: 16)  
DIALOG(R) File 16:Gale Group PROMT(R)  
(c) 2005 The Gale Group. All rts. reserv.

08575400      Supplier Number: 73881341 (USE FORMAT 7 FOR FULLTEXT)  
**ETFs from A to Z: A diversified portfolio can be constructed entirely of  
ETFsand suitable to any client's risk tolerance.**  
Carty, C. Michael  
Financial Planning, pITEM01121017  
May 1, 2001  
Language: English Record Type: Fulltext  
Document Type: Magazine/Journal; Professional  
Word Count: 2703

(USE FORMAT 7 FOR FULLTEXT)  
TEXT:

A whole new world of **investment** opportunities has opened up for financial planners and their clients with the proliferation of exchange...  
... look for in an ETF depends primarily on whether they have long- or

short-term **investment** horizons. While both sets of investors can benefit from all of the features of ETFs...

...or redemptions from it) are effected by a physical transfer of securities, resulting in no **taxable** event to the individual investor, as would occur in a mutual fund. Ergo, a long-term **taxable** gain or loss is not likely to occur until an individual sells his shares. This is an obvious benefit for long-term investors who prefer their **investment** returns to compound free of taxes until they liquidate.

Continuous pricing. Since ETFs are exchange...

...of stocks for adequate diversification, or too small to meet a mutual fund's minimum **investment** requirement.

4) They enable clients to tilt portfolios to favored market segments (e.g., large...to justify spending the amount of time necessary to build well-researched and thought-out **investment** programs for the small brokerage fees involved.

Second, since there is little incentive for commission...

...nature of an ETF's structure. There are basically three forms of ETFs: the unit **investment** trust, which cannot reinvest dividends or engage in securities lending to enhance performance; the mutual...

...not consider HOLDRs to be a true ETF because it is not registered as an **investment** company under the **Investment** Company Act of 1940.)

Becoming familiar with each ETF's performance characteristics. For example, the...

...meet a client's specific needs. Since each planner's approach to designing and building **investment** programs is unique, each must use ETFs in a manner that is convenient for him...

...Ireland of the American Stock Exchange.

To construct the portfolios, we used the most advanced **portfolio optimization** process to determine the most efficient allocation among these securities across the entire spectrum of...with exchange-traded funds is not without its challenges. It requires an understanding of clients' **investment** horizons and the benefits they seek. ETFs offer flexibility in designing and rebalancing portfolios, convenience...

...s objectives, irrespective of his attitude toward risk.

C. Michael Carty is principal and chief **investment** officer for New Millennium Advisors Inc., a New York City-based **investment** advisor. His e-mail address is mcarty1@rcn.com.

PRODUCT NAMES: \*6231100 (Securities Exchanges); 6700000 (**Investment** Funds & Trusts); 9915100 (Financial Management)

SIC CODES: 6231 (Security and commodity exchanges); 6700 (HOLDING AND OTHER **INVESTMENT** OFFICES)

NAICS CODES: 52321 (Securities and Commodity Exchanges); 52591 (Open-End **Investment** Funds)

7/K/32 (Item 5 from file: 16)

DIALOG(R) File 16:Gale Group PROMT(R)

(c) 2005 The Gale Group. All rts. reserv.

06010901 Supplier Number: 53412699 (USE FORMAT 7 FOR FULLTEXT)

Buy Side Plays Catch Up. (**risk management systems**) (**Industry Trend or Event**)

DUFFY, MAUREEN NEVIN  
Wall Street & Technology, v16, n12, p`(1)  
Dec, 1998  
Language: English Record Type: Fulltext  
Document Type: Magazine/Journal; Trade  
Word Count: 1639

... qualified according to the kind of buy side business the company is in, for example, **investment** managers, corporate treasury areas and pension funds, says Debbie Williams, co-founder and a research...

Riskmaps  
(formerly NeoFARM) NeoVision  
Hypersystems Inc.

The Yield Book Salomon Brothers

Actual product name Thomson **Investment**

to be announced Software, a division of  
Axiom Thomson Financial  
Wilshire Qantum  
Series

Atlas Wilshire...

...system for institutional investors  
\* Portfolio analyses  
\* Pricing and valuation  
\* Compliance monitoring and reportin  
g  
\* Performance attribution  
\* **Portfolio optimization**  
\* Benchmark and index comparisons  
Cash flow forecasting  
\* Asset liability management

Focus al Designed for small hedge funds, mutu  
funds,

banks. corporate clients, money managers,  
asset  
management side of **investment**

Supports, multiple markets with  
analytical tools;

position keeping, market risk, some  
counterparty  
and trader...

...announced Track exposures by portfolio,  
Axiom settlement-market,  
taxable country and counterparty risks  
Specialized support for  
portfolios

- \* Scenario simulation, optimization  
and  
performance attribution
- \* Analytics: cashflow, OAS models fo  
r  
mortgage  
pass-throughs...

7/K/33 (Item 1 from file: 148)  
DIALOG(R) File 148:Gale Group Trade & Industry DB  
(c)2005 The Gale Group. All rts. reserv.

0018722878 SUPPLIER NUMBER: 136574458 (USE FORMAT 7 OR 9 FOR FULL TEXT)  
**Pacific Life Makes Variable Annuity Benefits Even Better.**  
Business Wire, NA  
Sept 23, 2005  
LANGUAGE: English RECORD TYPE: Fulltext  
WORD COUNT: 772 LINE COUNT: 00066

... year of what they put into their annuity, and stay invested in a Pacific Life **Portfolio Optimization** asset allocation model. In addition, if withdrawals begin after age 65, the annual 5 percent...

...that Pacific Life variable annuities provide. These include guaranteed death benefits, multiple money managers and **investment** options. Consult a prospectus for more information about **investment** risks, surrender options and expenses.

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7/K/34 (Item 2 from file: 148)  
DIALOG(R) File 148:Gale Group Trade & Industry DB  
(c)2005 The Gale Group. All rts. reserv.

0018573564 SUPPLIER NUMBER: 135059802 (USE FORMAT 7 OR 9 FOR FULL TEXT)  
**ECC Capital Corporation Reports Second Quarter 2005 Results.**

PR Newswire, NA

August 12, 2005

LANGUAGE: English            RECORD TYPE: Fulltext  
WORD COUNT: 3059        LINE COUNT: 00361

TEXT:

IRVINE, Calif., Aug. 12 /PRNewswire-FirstCall/ -- ECC Capital Corporation , a mortgage finance real estate **investment** trust (REIT) that originates and invests in residential mortgage loans, today announced financial results for...

... 13.5 million associated with the gain on sale of loans from the Company's **taxable** REIT subsidiary, Encore Credit Corp., to its parent, ECC Capital.

"Key second quarter achievements included...

...39%	4.23%		
Net interest rate spread		2.86%	2.84%
WAC - Loans held for <b>investment</b>		7.28%	7.29%
Cost of funds		3.63%	3.34%
Net interest rate spread...			

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Mortgage loans held for <b>investment</b> ,		

net	3,110,534	-
-----	-----------	---

Accrued mortgage loan interest	27,889	1,581
Residual interests in...		

...696	4,970	43,864	10,068
--------	-------	--------	--------

Provision for loan losses - Loans held for <b>investment</b>	3		
,510	-	6,010	-

Net interest income, after provision for loan losses	28,186	4,970...
--	--------	----------

7/K/35 (Item 3 from file: 148)

DIALOG(R) File 148:Gale Group Trade & Industry DB  
(c)2005 The Gale Group. All rts. reserv.

0017911080 SUPPLIER NUMBER: 126493053 (USE FORMAT 7 OR 9 FOR FULL TEXT)

**Why not 100% hedge funds? Still a viable approach. (Column)**

Lamm, R. Mcfall Jr.

Journal of Investing, 13, 4, 12(9)

Winter, 2004

DOCUMENT TYPE: Column ISSN: 1068-0896 LANGUAGE: English

RECORD TYPE: Fulltext

WORD COUNT: 5663 LINE COUNT: 00510

TEXT:

The late 1990s brought a cascade of new **investment** research into the efficacy of hedge funds and their role in portfolios. When I wrote...  
... versus stocks and bonds. This record produces attractive Sharpe ratios and demonstrates why naive retrospective **portfolio optimization** assigns a 100% portfolio weighting to hedge funds for most levels of portfolio risk. (3...)

...to employ options.

In addition to periodic and unexpectedly large drawdowns, asymmetry implies that standard **portfolio optimization** techniques such as mean-variance analysis are inappropriate since they presume normally distributed returns. Kat...

...simple to deal with hedge funds." Acknowledging this, a number of authors have proposed alternative **portfolio optimization** approaches capable of dealing with asymmetry. (4)

A third major criticism is that hedge funds...

...a particular hedge fund. They rely on the manager to describe the underlying strategy and **investment** objective. This is different from what happens in the case of plain vanilla stock and...

...as much, because if hedge funds do in fact offer superior risk-adjusted returns, then **investment** funds should redeploy into hedge funds until any differential outperformance is arbitraged away. The worry...

...but they also cannot be replicated because many individual hedge funds are closed to new **investment**; virtually all FOFs are open, in contrast. An additional benefit of using FOF performance as...

...in deep and liquid markets. Even so, some mutual funds in fact close to new **investment**. There is no public uproar when this occurs, yet this is little different from hedge...

...offshore investors who are generally not subject to domestic taxation. For on-shore investors and **taxable** trusts, both in the U.S. and Europe, though, the aggressive taxation of hedge fund income would appear to be an impediment.

That said, for most **taxable** investors hedge fund taxation is an asset location problem, not an allocation issue. The appropriate...

...same hedge fired exposure as nontaxable entities but that exposure should be implemented via non- **taxable** or tax-detected structures. For example, the vast majority of U.S. investors can resort...

...variable annuities or life insurance, private placement insurance, and derivatives to effectively shelter hedge fund **investment** income.

In this context, taxation of hedge funds is a problem only if investors elect recent years, the anecdotal evidence of rising hedge fund **investment** is very, strong. Not only are institutional investors reporting initial or higher allocations to hedge...

...Analysts Journal, March/April 2002.

Biggs, Barton. "Looking into the Hedge Fund Bubble." Asia Pacific **Investment Perspectives**, Morgan Stanley Dean Witter, June 27, 2001, pp. 12-14.

Brooks, Chris and Harry...

...of Investing, Fall 2002, pp. 66-76.

Fung, William, and David Hsieh. "Survivor Bias and **Investment** Style in the Returns of CTAs." The Journal of Portfolio Management, Fall 2000.

Hunt, Lacy...

...Malik at amalik@iijournals.com or 212-224-3205.

R. MCFALL LAMM, JR. is chief **investment** strategist and head of Global Portfolio Management at Deutsche Bank Private Wealth Management in New...

7/K/36 (Item 4 from file: 148)

DIALOG(R) File 148:Gale Group Trade & Industry DB  
(c)2005 The Gale Group. All rts. reserv.

16376700 SUPPLIER NUMBER: 107204232 (USE FORMAT 7 OR 9 FOR FULL TEXT )

Is past performance really indicative of future results? Many sources advise investors not to chase performance, but this study suggests that what everyone 'knows' just isn't so for six broad stock indexes. This has serious implications for the traditional approach to asset allocation. (Equity Trading Techniques)

Bernicke, Ty; Mattson, Lucretia  
Futures (Cedar Falls, Iowa), 32, 10, 34(4)  
August, 2003  
ISSN: 0746-2468 LANGUAGE: English RECORD TYPE: Fulltext  
WORD COUNT: 2903 LINE COUNT: 00260

TEXT:

...an investor allocates money to investments that have performed well relative to other investments. Many **investment** companies have marketing material geared to teaching investors not to chase **investment** performance.

... the greatest golfer in the world.

Is it possible that we have erroneously entrusted our **investment** portfolios to similar modes of conventional wisdom? Our analysis shows that the conventional wisdom of...

...diversification between broad categories of stocks with periodic rebalancing to ensure an optimal allocation. Many **investment** companies and advisors have services that accommodate this strategy. This approach has been embraced by...

...Planning, December 2000.)

The stimulus to conduct this study was marketing literature from several major **investment** companies that indicated the pitfalls of chasing performance and the benefits of traditional asset allocation...

...rebalancing time frames: annually, quarterly and monthly, the times frequently used by investors, advisors and **investment** companies.

Our initial **investment** is \$10,000 with any gains or distributions assumed to be reinvested. No other monies...

...class. We wanted to use these results as a benchmark against the rebalanced results (see " **Investment** performance analysis, 1980-2001," above).

Strategy B is "Chase performance." With this strategy, we invest...  
...performer is designated third and so on. We then rebalance the entire value of the **investment** based on this performance.

On the monthly basis, we first use the "chase the winner..."

...worst-performing index was the MSCI EAFE Growth. This strategy represents a wide variation, of **investment** performances.

Strategy B "chase performance" has a range from \$734,644 to \$33,863 with...

...have been used the last 22 years, yet this is the advice from many major **investment** companies analyzing the same 22 years with the same indexes.

THRILL OF THE CHASE

Next...

...fund performance appears driven almost entirely by trends in certain well-known and widely publicized **investment** categories.

Therefore, when making decisions on money allocation, investors should consider size and style characteristics...

...as well as trends in performance.

The traditional approach to asset allocation involves developing an **investment** profile for an investor. Based on this **investment** profile, the investor or advisor develops an optimal asset mix that has targeted percentages for...

...management approach could also help to control portfolio risk. Investors then must ask how much **investment** performance they are willing to give up to reduce risk. The answer can come from modeling hypothetical allocations with **portfolio optimization** software.

"Breaking with tradition" (left) shows how an investor can increase returns by maintaining flexibility...

...long-term data. Examples are short-term debt, domestic and international bonds, real estate securities, **investment** hedges, commodities and other specific equity sectors.

When you model hypothetical portfolios, remember that our...

...cap growth stocks. Monitor past history of the account or the manager of

the specific **investment** to determine if problems with style drift have occurred, a factor that could damage **investment** performance.

Another limitation is the time horizon analyzed. Some may argue that the time horizon...

...Our analysis assumed that these strategies were implemented in a tax-deferred account. In a **taxable** account you must consider the impact of taxes.

#### BE ACTIVE

The relationships between index performances from one period to the next have serious implications for **investment** management. The traditional approach for portfolio rebalancing has been nearly the worst strategy we could...

...worked for Tiger Woods and Dr. Atkins.

#### MARKETING ADVICE

The reports below produced by these **investment** companies suggest following the hot performers isn't a smart financial move. Our study using ...

...of Diversification," Fidelity Investments

\* "20 Years of The Best and Worst Case for Diversification," MFS

#### Investment Management

\* "What's Wrong With Investing in Last Year's top Asset Class? It's No Longer Last Year," SunAmerica

#### INVESTMENT PERFORMANCE ANALYSIS, 1980-2001

Strategy A: Buy and hold

Russell 2000 Value \$226,232  
S...

...pp. 45-56.

\* Thomas J. Zwirlein and Venkateshwar K. Reddy, "Timing Patterns in Effective Periodic **Investment** Strategies," Journal of Financial Planning, August 2000, pp. 106-114.

\* Herbert B. Mayo, "Investments: An...

7/K/37 (Item 5 from file: 148)

DIALOG(R) File 148: Gale Group Trade & Industry DB  
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15402620 SUPPLIER NUMBER: 95911168 (USE FORMAT 7 OR 9 FOR FULL TEXT)  
Getting the mix right: asset allocation software. (Software Review). (review of upgrades to investment management software packages) (Product/Service Evaluation)

Levey, Steven I.

Accounting Today, 16, 22, 19(5)

Dec 16, 2002

DOCUMENT TYPE: Product/Service Evaluation ISSN: 1044-5714  
LANGUAGE: English RECORD TYPE: Fulltext  
WORD COUNT: 3313 LINE COUNT: 00289

Getting the mix right: asset allocation software. (Software Review). (review of upgrades to investment management software packages) (Product/Service Evaluation)

... Edition Zunna Inc.

WATS Advisor Edition is a unique program that combines accumulation, retirement and **investment** policies in determining an **investment** portfolio. WATS incorporates the methodology used in the Trinity Study and elaborates on it, including-WATS' new technology for **portfolio optimization**. Philip Cooley, Daniel Walz and Carl Hubbard, professors of economics from Trinity University in San ...box for portfolio allocation such as large cap, small cap, bonds, etc. Clicking on the **investment** category reveals ...new screen that has data from 1930 to present with highs, and lows by period. **Investment** results include median, high range, low range, average gain and various standard deviations from -2... incorporates Black Box and Portfolio Stressor to work together to help the planner find an **investment** strategy that works for their clients. Portfolio Stressor stresses the client portfolio to find out...selecting the appropriate individual managers or mutual funds; and,

\* Scenario Builder, to analyze what-if **investment** scenarios.

The program opens with tabs for start up, inputs, constraints, back solve and inputs...with Analyzer, Inputs Generator, Attribution Analyzer, Allocation-Implementation and Scenario Builder to form a formidable **investment**-planning tool.

Allocation Master V. 6.9 Sungard Online **Investment** Systems

Allocation Master addresses such categories as Scenario Assumptions, Asset Classes, Client Profiling, Portfolio Holdings, Financial Forecasting, Projected Assets, Monte Carlo Simulation, Implementation Planning, **Investment** Products and **Investment** Policy Statements.

The program opens with a client profile, including input for projection period, target...

...risk questionnaire helps grade concerns such as willingness to bear an above-average level of **investment** risk (volatility) and willingness to maintain **investment** positions for at least 10 years on a scale of one to five.

Holdings can...Featured graphs include the return range, target returns, assets range and target assets over the **investment** horizon. The implementation area includes listing the proposed asset class and the source of funds...

...be increased. A product recommendation space including symbol can also be input. A six-page **investment** policy statement including summary, objectives, time horizon, risk tolerance, expected performance, asset allocation, monitoring and...to correct shortfalls. ICE is NASD-compliant and can also offer reports, graphs and an **investment** policy statement.

All reports can be e-mailed and printed. The software also integrates education planning, risk management, net worth and detailed cash-flow statements, portfolio management, retirement planning and **investment** analysis/scenarios to identify and achieve financial goals. Databases for mutual funds, stocks, variable annuities...The report builder feature allows the planner to select from over 30 options including an **investment** policy statement, client-risk questionnaire, and numerous detailed tables and ...the clients' assets can be entered in detail in the current portfolio section. Push the **investment** manager button and portfolio name, type, ticker symbol, number of shares, current value, basis and...data in the graphs can be toggled to reveal individual holdings by dollars or percentages, **taxable** or tax-advantaged, whose assets they are (husband, wife, joint etc.) and it also shows...Blueprint is an asset allocation client presentation system that must be used in combination with **Investment** View V. 9 to take advantage of up-to-date databases. It begins with seven income, high yield, aggressive growth and international. A specific name and amount of the **investment** can be entered with ease.

Push the questionnaire button and an eight-part questionnaire with  
...

...When a choice is made, the next question pops up.

Other questions include comfort with **investment** performance ranges, age of investor, time horizon of investor, duration of withdrawals from the ...Real performance numbers allow the user to custom-build a client portfolio and demonstrate key **investment** strategies including risk/reward tradeoff and portfolio rebalancing.

To complete the process, the disclosures tab...

...showing definitions, methodology and basis of the recommendations. The second page ends up being an **investment** policy statement that can be signed and dated by the client.

Blueprint is linked to the Wiesenberger **Investment** View database, which tracks over 12,000 mutual funds, 15,000 variable annuity sub-accounts ...[www.ibbotson.com](http://www.ibbotson.com)

Pricing: Initial year--\$3,000.

\* Allocation Master V. 6.9  
Sungard Online **Investment**  
Systems  
8910 University Center Lane,  
Suite 700  
San Diego, Calif. 92122  
(858) 552-1268  
[www...](http://www...)

7/K/38 (Item 6 from file: 148)  
DIALOG(R) File 148:Gale Group Trade & Industry DB  
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14923811 SUPPLIER NUMBER: 90388250 (USE FORMAT 7 OR 9 FOR FULL TEXT)  
**Mutual fund strategies: a new century demands a new approach.**  
Harrington, Cynthia  
Journal of Accountancy, 194, 2, 28(5)  
August, 2002  
ISSN: 0021-8448 LANGUAGE: English RECORD TYPE: Fulltext  
WORD COUNT: 3298 LINE COUNT: 00277

... funds still are around because they continue to serve investors' needs for diversification and professional **investment** management. They are growing because they can adapt to demands for improved products and because...at better long-term performance, they also provide CPAs with an edge in using this **investment** product. The bottom line? If mutual funds haven't been part of your client's...every size and flavor and management has worked diligently to reduce the annual bite for **taxable** investors by lowering portfolio turnover.

In addition to the efforts by fund management, CPAs are getting another boon in helping clients manage **investment** taxes. The SEC-mandated aftertax performance reporting will spread across the industry this year. CPAs...cater to smaller investors.

#### FUND STRATEGIES

It's the CPA's job to put new **investment** products to work for their clients. Quest Capital uses sector funds to add incremental performance to the overall portfolio. Carl Kunhardt, who chairs the firm's **investment** committee, makes predictions on sector movements. He expected

and received higher returns from the communication...laddered strategy within the traditional mutual fund structure. According to Brian McMahon, president and chief **investment** officer for Santa Fe, New Mexico-based Thornburg **Investment** Management, the company has managed its list of funds the same way since it started...is software that looks at the setup of the overall portfolio including style analysis and **portfolio optimization**. But neither stops there. "We continue our work with Overlap, which analyzes each security a...New York

City, [www.hedgeindex.com](http://www.hedgeindex.com).

\* Money Management Institute,  
Washington, D.C.,  
[www.moneyinstitute.com](http://www.moneyinstitute.com).

\* **Investment** Company Institute,  
Washington, D.C., [www.ici.org](http://www.ici.org).

\* Overlap, Kansas City, Missouri,  
[www.overlap.com](http://www.overlap.com)...

...accounts: Something seemed to change with the portfolio decision-making process. An inquiry to the **Investment** Management Consultants Association, to which he belongs, revealed the difference. Virtually all the manager's ...psca.org/data/44th.html.

CYNTHIA HARRINGTON, CFA, is a financial journalist with 20 years' **investment** experience. She began her career as a stockbroker and ended it as the owner and chief **investment** officer of an asset management firm serving high-net-worth clients. Her work appears in...

7/K/39 (Item 7 from file: 148)

DIALOG(R) File 148:Gale Group Trade & Industry DB  
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11087822 SUPPLIER NUMBER: 54776999 (USE FORMAT 7 OR 9 FOR FULL TEXT)  
Is there a free lunch in emerging market equities?: In some markets, but  
investors need to be more selective going forward.  
Bekaert, Geert; Urias, Michael S.  
Journal of Portfolio Management, 25, 3, 83(1)  
Spring, 1999  
ISSN: 0095-4918 LANGUAGE: English RECORD TYPE: Fulltext; Abstract  
WORD COUNT: 6789 LINE COUNT: 00571

...ABSTRACT: scenario of the true diversification benefits from emerging equity markets can be realized from three **investment** vehicles that support access to emerging market returns. These **investment** mediums circumvent several restrictions and costs that hinder the conclusion of previous emerging market research. In addition, diversification benefits associated with emerging equity markets are sensitive to the **investment** vehicle.

... have enabled researchers to gain valuable insights into emerging equity markets, the performance of direct **investment** in emerging markets as represented by such benchmarks may not always be achievable. Hence the ...

...realistic picture of the true diversification benefits from emerging equity markets is available from three **investment** vehicles that provide access to emerging market returns, while circumventing many of the restrictions and...

...mutual funds in a global equity portfolio. Closed-end country funds were among the earliest **investment** vehicles providing access to emerging markets, beginning with the New York-traded Mexico Fund in...

...they are actively managed, open-end funds may offer protection in down markets that other **investment** vehicles do not.(5)

The goal of this article is a better understanding of the...

...We begin with a discussion of expected returns, correlation, and tracking error using the different **investment** vehicles. Finally, we attempt to use robust statistical tests to evaluate the diversification benefits of...CLOSED-END FUNDS, OPEN-END FUNDS, ADRS, AND EMERGING MARKET INDEXES

The traditional practice of **portfolio optimization** requires estimates of expected returns and the covariance and volatility of returns for a set...

...the potential benefits of emerging equity markets under different scenarios, and the tradeoffs between different **investment** vehicles that access these markets.

Let  $(\Sigma)_{\text{sub.R}}$  denote the covariance matrix of the developed world equity market index return and a portfolio of emerging market **investment** returns, and let represent the market price of risk. The market price of risk can...available.

Under the assumptions of the experiment in Exhibit 3, on an expected return basis, **investment** vehicles like closed-end funds, open-end funds, and ADRs appear more attractive than the...

...the 1993-1996 sample period, equally weighted portfolios of open-end funds were the superior **investment** vehicle for matching the performance of the IFC indexes.

#### TESTING FOR DIVERSIFICATION BENEFITS

Mean-Variance...justify emerging market closed-end funds in optimal portfolios compared to the other emerging market **investment** vehicles. With optimal allocation levels greater than 10%, emerging market open-end funds, ADRs, and...

...sensitive to the time period of the tests and, in some cases, to the particular **investment** vehicle. Direct exposure to emerging market indexes almost always gives benefits at least as strong...and expected performance of alternative investments.

7 U.K. closed-end funds are known as **investment** trusts, and while they are technically equivalent to their U.S. counterparts, there are a...

...that U.K. funds are held mainly by institutions, and fund expenses are deductible from **taxable** income for U.K. trusts (see Bekaert and Urias (1996) and Ammer (1990) for details...).

...Market." Journal of Financial Economics, 36 (1994), pp. 57-87.

Bekaert, G. "Market Integration and **Investment** Barriers in Emerging Equity Markets." The World Bank Economic Review, 1995, pp. 75-107.  
Bekaert...

...PRODUCT/INDUSTRY NAMES: 6700000 (**Investment** Funds & Trusts)  
NAICS CODES: 52321 Securities and Commodity Exchanges; 52591 Open-End  
**Investment** Funds

7/K/40 (Item 8 from file: 148)  
DIALOG(R) File 148:Gale Group Trade & Industry DB  
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10882376 SUPPLIER NUMBER: 54112200 (USE FORMAT 7 OR 9 FOR FULL TEXT)  
**Long-short portfolio management: an integrated approach.**  
Jacobs, Bruce I.; Levy, Kenneth N.; Starer, David  
Journal of Portfolio Management, 25, 2, 23(1)  
Winter, 1999  
ISSN: 0095-4918 LANGUAGE: English RECORD TYPE: Fulltext; Abstract  
WORD COUNT: 6547 LINE COUNT: 00532

...ABSTRACT: short type of portfolio can enable investors to exploit the full range of securities and **investment** insights in comparison to a long-only portfolio. However, the advantages of a long-short...

TEXT:

The real benefits of long-short are released only by an integrated **portfolio optimization**.  
... investor to take advantage of the full array of securities and the full complement of **investment** insights by holding expected winners long and selling expected losers short.

A long-short portfolio...restrictions imposed by securities' benchmark weights enhances the long-short investor's ability to implement **investment** insights.

Costs: Perception versus Reality  
Long-short construction maximizes the benefit obtained from potentially valuable **investment** insights by eliminating long-only's constraint on short-selling and the need to converge...

...long-only portfolio.(5)

Aside from the trading related to the sheer size of the **investment** in long-short versus long-only, the mechanics of long-short management may require some...short will be particularly valuable in a market in which short-selling is restricted and **investment** opinion diverse. When investors hold diverse opinions, some will be more pessimistic than others. With...profits realized when short positions are closed out do not give rise to unrelated business **taxable** income.

6 For analytical tractability and expositional simplicity, we use the traditional mean-variance utility...

...Bruce I. "Controlled Risk Strategies." In ICFA Continuing Education: Alternative Assets. Charlottesville, VA: Association for **Investment** Management and Research, 1998.

Jacobs, Bruce I., Kenneth N. Levy, and David Starer. "On the..."

...DESCRIPTORS: **Investment** analysis

7/K/41 (Item 9 from file: 148)  
DIALOG(R) File 148:Gale Group Trade & Industry DB  
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09204828 SUPPLIER NUMBER: 18955746 (USE FORMAT 7 OR 9 FOR FULL TEXT)  
**Nuclear decommissioning trust funds: rethinking the approach.**  
Korn, Donald H.  
Public Utilities Fortnightly (1994), 134, n21, 26(6)  
Nov 15, 1996

LANGUAGE: English      RECORD TYPE: Fulltext; Abstract  
WORD COUNT: 4114      LINE COUNT: 00335

... may even suggest a more fundamental rethinking than the NRC contemplates.

Contemporary arrangements for trust- investment management seek a target rate of return. If the portfolio is risky, it can easily have a future value far greater than the plant owner's initial investment - or far less. If far greater, then a small initial investment will suffice to pay off the future decommissioning cost. But, if the value turns out...

...terms. Separately, a financial activity related to the trust fund(s) focuses on maximizing the investment returns to the NDT. Now that IRS regulations no longer restrict qualified NDTs to "Black..."

...high percentage of the funds in common stocks, especially for NDTs contemplating funds accumulation and investment over many years.

The presumption is that stocks represent prudent long-term holdings because they...

...although approved NDT contributions are tax deductible, the trust income, unlike pension trust income, is taxable to the (utility) owner-operator (unless invested in tax-exempt securities like municipal bonds). The...

...the tax laws, the asset allocation over time, and the market-timing skills of the investment managers.

Second, ...assets" (NDT), the gap can be better monitored and controlled. Techniques for option pricing and portfolio optimization should allow one to design an NDT portfolio that minimizes or eliminates shortfall risk.

The...

...The cost of insuring against a "gap" due to (a) a portfolio shortfall from risky investment strategy, or (b) a premature shutdown, can be formulated in terms of the value of...root)N)

where N is the time to maturity of the liability and (sigma ) is investment risk. Equation 3 above indicates that, when the NDT is 1 invested in stocks with...and G.S. Rothwell, editors, 1991. (7) Bodie, Zvi: "The ABO, The PBO, and Pension Investment Policy," Nov. 1989 (paper prepared under Dept. of Labor Contract No. J-9-P-8-0097); and "Shortfall Risk and Pension Fund Investment Policy," presented at the NYU Salomon Brothers Center and Rutgers GSM Center joint conference, The...

7/K/42 (Item 10 from file: 148)  
DIALOG(R) File 148:Gale Group Trade & Industry DB  
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08564825 SUPPLIER NUMBER: 18122112 (USE FORMAT 7 OR 9 FOR FULL TEXT)  
An upper bound for the firm's cost of employee stock options. (includes appendices)

Mozes, Haim A.

Financial Management, v24, n4, p66(12)  
Winter, 1995

ISSN: 0046-3892 LANGUAGE: English      RECORD TYPE: Fulltext; Abstract  
WORD COUNT: 9582      LINE COUNT: 00751

...ABSTRACT: bound depends on the risk and return of the underlying stock and on all other **investment** opportunities that are available, but it does not depend on employees' risk preferences or wealth...

... depends on the risk and return of the underlying stock and on all other available **investment** opportunities but not on employees' risk aversion. Individual employees may rationally exercise their unhedged ESOs  
...

...requires the firm to recognize an expense on its income statement; c) it is immediately **taxable** to the employee; and d) it does nothing to align shareholders' and employees' interests. Likewise... $P_{sub.s} - X(1 - (\Tau))$  represents the amount the employees will have available for **investment** if the options are exercised and the underlying stock is sold. This amount is simply...at a price below  $P_{sub.s}$  is the solution to his or her personal **portfolio optimization** problem.(14) However, it will never be rational for employees to continue holding their unhedged...ESOs.

A fourth implication of the model relates to the incentives provided by ESOs. Specifically, **investment** decisions may have different effects on the firm's value and on the ESOs' expected...

...employees will increase. Hence, ESOs may align employees' and owners' interests with respect to an **investment** opportunity that increases the firm's value without increasing its unsystematic risk. On the other hand, if the **investment** opportunity contains sufficient unsystematic risk,  $P_{sub.s}$  will decrease, and employees will exercise their...depends on the risk and return of the underlying stock and on all other available **investment** opportunities, but it does not depend on employees' risk preferences or wealth.

There are several...D.W. Blackwell, and J.F. Sinkey, 1995, "The Relationship Between Corporate Compensation Policies and **Investment** Opportunities: Empirical Evidence for Large Bank Holding Companies," *Financial Management*, (Autumn), 40-53.

Cuny, C...

...Compensation," Norwalk, CT (October).

Gaver, J.J. and K. Gaver, 1995, "Compensation Policy and the **Investment** Opportunity Set," *Financial Management* (Spring), 19-32.

Halperin, R., H. Mozes, and S. Balsam, 1994...

7/K/43 (Item 1 from file: 20)  
DIALOG(R) File 20:Dialog Global Reporter  
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44657756 (USE FORMAT 7 OR 9 FOR FULLTEXT)  
**Pacific Life Makes Variable Annuity Benefits Even Better**  
BUSINESS WIRE  
September 23, 2005  
JOURNAL CODE: WBWE LANGUAGE: English RECORD TYPE: FULLTEXT  
WORD COUNT: 726

(USE FORMAT 7 OR 9 FOR FULLTEXT)

... year of what they put into their annuity, and stay invested in a Pacific Life **Portfolio Optimization** asset allocation model. In addition, if withdrawals begin after age 65, the annual 5 percent...

... that Pacific Life variable annuities provide. These include guaranteed death benefits, multiple money managers and **investment**

options. Consult a prospectus for more information about **investment** risks, surrender options and expenses.

Pacific Life Insurance Company is licensed to issue individual life...

... annuity's risks, charges, limitations and expenses, as well as the risks, charges, expenses and **investment** objectives of the underlying **investment** options. This and other information about Pacific Life is in the prospectuses available from your...

...investing.

Variable annuities are long-term investments designed for retirement. The value of the variable **investment** options will fluctuate and when redeemed, may be worth more or less than the original cost. Withdrawals and other distributions of **taxable** amounts will be subject to ordinary income tax, and if taken prior to age 59...

... Life provides life insurance products, individual annuities, and mutual funds, and offers a variety of **investment** products and services to individuals, businesses and pension plans. Pacific Life counts more than half...

**7/K/44 (Item 2 from file: 20)**

DIALOG(R) File 20:Dialog Global Reporter  
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43960284 (USE FORMAT 7 OR 9 FOR FULLTEXT)

**ECC Capital Corporation Reports Second Quarter 2005 Results**

PR NEWSWIRE (US)

August 12, 2005

JOURNAL CODE: WPRU LANGUAGE: English RECORD TYPE: FULLTEXT

WORD COUNT: 3408

(USE FORMAT 7 OR 9 FOR FULLTEXT)

IRVINE, Calif., Aug. 12 /PRNewswire-FirstCall/ -- ECC Capital Corporation , a mortgage finance real estate **investment** trust (REIT) that originates and invests in residential mortgage loans, today announced financial results for...

... 13.5 million associated with the gain on sale of loans from the Company's **taxable** REIT subsidiary, Encore Credit Corp., to its parent, ECC Capital.

"Key second quarter achievements included...

...39% 4.23% Net interest rate spread 2.86% 2.84% WAC - Loans held for **investment** 7.28% 7.29% Cost of funds 3.63% 3.34% Net interest rate spread ... represents management's best estimate of losses incurred within the portfolio of loans held for **investment** . The loan portfolio is unseasoned and ECC Capital has experienced no actual losses or significant...

... 2005. At June 30, 2005, total delinquencies within the Company's loan portfolio held for **investment** were 1.4% and serious delinquencies (greater than 90 days) were 0.3%. Nevertheless, given...

...minimal in relation to production as the Company continues to accumulate mortgage assets in its **taxable** REIT subsidiary that allow it to build a greater pool of assets for REIT **portfolio optimization** while earning spread income prior to selling loans that are not selected for the REIT...

ECC Capital Corporation

ECC Capital Corporation, headquartered in Irvine, Calif., is a mortgage real estate **investment** trust (REIT) that originates and invests in residential mortgage loans. Through its wholesale and retail...

... some time in the future. In addition, ECC Capital accounts for the majority of its **investment** in residual interests in securitizations as a trading asset and the unrealized gains and losses...Mortgage loans held for sale, net 1,922,322 911,784 Mortgage loans held for **investment**, net 3,110,534 - Accrued mortgage loan interest 27,889 1,581 Residual interests in...

...31,696 4,970 43,864 10,068 Provision for loan losses - Loans held for **investment** 3,510 - 6,010 - Net interest income, after provision for loan losses 28,186 4...

SIC CODES/DESCRIPTIONS: 6798 (Real Estate **Investment** Trusts); 6722 (Management **Investment** Open-End); 6500 (Real Estate); 6371 (Pension Health & Welfare Funds); 6513 (Operators of Apartment Buildings...)

NAICS CODES/DESCRIPTIONS: 52 (Finance & Insurance); 525 (Funds Trusts & Other Financial Vehicles); 5259 (Other **Investment** Pools & Funds); 531 (Real Estate); 53 (Real Estate & Rental & Leasing); 52593 (Real Estate **Investment** Trusts)

7/K/45 (Item 3 from file: 20)  
DIALOG(R) File 20:Dialog Global Reporter  
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42253980 (USE FORMAT 7 OR 9 FOR FULLTEXT)  
**Q1 2005 Philadelphia Consolidated Holding Corp. Earnings Conference Call - Part 1**  
FAIR DISCLOSURE WIRE  
April 26, 2005  
JOURNAL CODE: WFDW LANGUAGE: English RECORD TYPE: FULLTEXT  
WORD COUNT: 4637

(USE FORMAT 7 OR 9 FOR FULLTEXT)

... 2% from \$171.4 million to \$236.8 million. We had good growth on our **investment** income, 35% going from \$10 million first quarter of last year to \$13.5 million...

... for the first quarter of last year. That includes \$0.29 of after-tax realized **investment** gains this quarter versus \$0.05 for this time last year.

Moving to page five...

... Company roughly \$2 million, and that is \$0.08 per share. Then we had realized **investment** gains of \$7 million or \$0.29 per share.

Looking at the segment information for...decrease in the gross written premium. This is a result of the DPO, the dynamic **portfolio optimization**, that we performed in the fourth quarter of last year where we made a conscientious...

...income and commission income and control the exposure in Florida.

Moving to page 12, our **investment** portfolio, the total portfolio market value at 1.7 billion, which is a 25% growth...

... an average quality AA+ rating. Portfolio duration is still at 4.1 years and the **taxable** equivalent yield is 4.7%. We've got roughly 7% of our portfolio in common stocks, quality long-term growth stocks.

Page 13, net **investment** income grew by 35% from 10 million to 13.5 million. We have had a compounded annual growth rate in our **investment** income of 16%. New money in the quarter roughly 25% was put into municipals, which...

...begin to heat up later in the year and we're hoping for an improving **investment** environment as we move into the balance of 2005.

At this point, I'd like...questions for you. The first one just to pure income statement and balance sheet stuff. **Investment** income jumped pretty sizably quarter-to-quarter. I wonder if there was anything unusual in...

... CFO, PHILADELPHIA CONSOLIDATED HOLDING CORP.: Brian, this is Craig Keller. When you look at our **investment** income, if you look at our portfolio, 3/31/'05 versus 3/31/'04, the portfolio actually grew about 25% and the **investment** income is a 35% growth rate. We have had impact our **investment** income is the quota shares that we have had in place, so first quarter '04, we had an interest credit that we recorded against our **investment** income or reduced our **investment** income by that interest credit. That approximated about 1.2 million. For first quarter '05...

...500,000. So if you normalize it for the impact of that quota share, the **investment** income grew about 25%, in line with the portfolio. BRIAN MEREDITH: Okay, but what about...

... time last year which we discontinued and then that combined with the DTO, the dynamic **portfolio optimization** in the personal lines area with the mobile home business all added up to about...for us over the last three to four months and we have been talking with **investment** bankers, communicating with AM Best and we are very close to a solution on capital ...

7/K/46 (Item 4 from file: 20)  
DIALOG(R) File 20:Dialog Global Reporter  
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41599799 (USE FORMAT 7 OR 9 FOR FULLTEXT)  
**Pacific Life and Annuity Offers Credit Enhancement Variable Annuity**  
BUSINESS WIRE  
April 05, 2005  
JOURNAL CODE: WBWE LANGUAGE: English RECORD TYPE: FULLTEXT  
WORD COUNT: 628

(USE FORMAT 7 OR 9 FOR FULLTEXT)

...Value variable annuity in the state of New York.  
Pacific Value jump-starts the consumers' **investment** with an immediate four percent credit that is added to the contract on their investments...

...a five percent credit. It features 14 world-class money managers with 31 market-based **investment** options, plus a Dollar Cost Averaging Plus Fixed-rate Option. Available at no additional cost is **Portfolio**

**Optimization**, a strategic asset allocation service developed by Pacific Life. Nobel Prize-winning modern portfolio theory...

... Value offers Guaranteed Protection Advantage for an additional cost, an optional guarantee of the initial **investment** that ensures there will be no loss at the end of a 10-year holding...

...shown a strong demand for a product that provides an extra boost to help their **investment** returns build quickly -- while offering them an optional guarantee that their initial investments are protected...

...a wide range of products including life insurance, individual annuities, structured settlement annuities, and other **investment** products and services for individuals and businesses. Pacific Life & Annuity is a member of IMSA...

... fixed annuities, variable annuities, and structured settlement annuities.)

Investors should carefully consider the underlying fund **investment** objectives, risks, charges, limitations and expenses of a variable annuity. This and other information about...

...investing.

Variable annuities are long-term investments designed for retirement. The value of the variable **investment** options will fluctuate and when redeemed, may be worth more or less than the original cost. Withdrawals and other distributions of **taxable** amounts, including death benefit payments, will be subject to ordinary income tax. If distributions are...

...for tax purposes and will be subject to market risk when invested in the variable **investment** options.

Dollar cost averaging can be a convenient way to continuously invest, regardless of changing...

7/K/47 (Item 5 from file: 20)  
DIALOG(R)File 20:Dialog Global Reporter  
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39074167 (USE FORMAT 7 OR 9 FOR FULLTEXT)  
**Q3 2004 DEPFA BANK Plc Earnings Conference Call - Part 1**  
FAIR DISCLOSURE WIRE  
November 03, 2004  
JOURNAL CODE: WFDW LANGUAGE: English RECORD TYPE: FULLTEXT  
WORD COUNT: 4830

(USE FORMAT 7 OR 9 FOR FULLTEXT)

... Roughly two thirds were business driven with an increase in 100% estimated assets in our **Investment** Banking Business. More 20% was created after the Pfandbriefbank and more 20% was created in...

... expected. An increase in risk weighted assets within Pfandbriefbank had something to do with the **portfolio optimization** in Pfandbriefbank, which had relatively high capital, so they can afford higher risk weighted assets. And the third impact were higher nominal volumes in our **Investment** Banking Business, which are normally 100% risk weighted, so that they are relatively small increase...

... historic impact on our risk weight. PETER TESTER: Who was the business

activity and the **Investment** Bank, which was sensitive? For the normal conducting of business or is there was only...

... GERHARD BRUCKERMANN: That's in the business, and the emerging market's assets, which the **Investment** Bank is involved in, most of them are 100% risk weighted. And depending on the...would basically comment that about 50% of the revenue stems from the GO Business, the **taxable** GO, in other words you use that for is budget financing, where we basically take...

...NAICS CODES/DESCRIPTIONS: of Economic Programs); 52 (Finance & Insurance); 5241 (Insurance Carriers); 524 (Insurance Carriers & Related Activities); 52311 ( **Investment** Banking & Securities Dealing); 92615 (Regulation Licensing & Inspection of Miscellaneous Commercial Sectors); 5231 (Security & Commodity Contracts...

7/K/48 (Item 6 from file: 20)  
DIALOG(R) File 20:Dialog Global Reporter  
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38975030

**Q3 2004 WPS Resources Earnings Conference Call - Part 1**

FAIR DISCLOSURE WIRE

October 28, 2004

JOURNAL CODE: WFDW LANGUAGE: English RECORD TYPE: FULLTEXT  
WORD COUNT: 4386

... has continued its strong performance, particularly in the retail natural gas business, and through electric **portfolio optimization** strategies. Joe O'Leary will now discuss the details. JOE O'LEARY, CFO AND SVP...

...to higher transmission-related costs. Energy Services wholesale electric margin increased by \$2.2 million. **Portfolio optimization** strategies increased wholesale electric margins by \$7.7 million, but this was partially offset by...1 million in the third quarter of 2004. An increase in equity earnings from our **investment** in American Transmission Company and Wisconsin Valley Improvement Company was partially offset by a decrease ...

... stock through a public offering in November 2003, and additional shares issued under the stock **investment** plan in certain stock-based employee benefit plans. Please see our press release issued this...

...a synthetic fuel operation during the second and third quarters of 2004. Based upon projected **taxable** income for the remainder of the year, we expect to recognize the remaining \$5.4...

SIC CODES/DESCRIPTIONS: 6282 ( **Investment** Advice); 4911 (Electric Services); 4924 (Natural Gas Distribution); 9631 (Regulation Administration of Utilities); 4920 (Gas...)

...NAICS CODES/DESCRIPTIONS: Power Generation Transmission & Distribution); 52 (Finance & Insurance); 9211 (General Government Administration); 234 (Heavy Construction); 52393 ( **Investment** Advice); 92112 (Legislative Bodies); 22121 (Natural Gas Distribution); 221113 (Nuclear Electric Power Generation); 5239 (Other Financial **Investment** Activities); 2349 (Other Heavy Construction); 81 (Other Services exc Public Admin); 486 (Pipeline Transportation); 48621...

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38677291 (USE FORMAT 7 OR 9 FOR FULLTEXT)  
**WPS Resources Corporation Reports Earnings for Third Quarter Of 2004**  
PR NEWSWIRE (US)  
October 28, 2004  
JOURNAL CODE: WPRU LANGUAGE: English RECORD TYPE: FULLTEXT  
WORD COUNT: 8729

(USE FORMAT 7 OR 9 FOR FULLTEXT)

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Set	Items	Description
S1	2946	PORTFOLIO (W) OPTIMIZATION
S2	1559	TAXABLE (W) INVESTMENT
S3	0	S1 AND S2
S4	8206067	(INVESTMENT OR INVEST\$)

S5        1669     S1 AND S4  
S6        203106    TAXABLE  
S7        49        S5 AND S6  
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